DE GRUYTER DOI 10.1515/bap-2012-0014 — Business and Politics 2012; 14(3): 1–10

Introductory Essay

Aseem Prakash* and Jennifer J. Griffin

Corporate responsibility, multinational corporations, and nation states: An introduction

Abstract: This special issue of *Business and Politics* examines how multinational corporations (MNCs) respond to the twin pressures of globalization and localization when implementing corporate responsibility (CR) policies. While MNCs are often viewed as agents of global economic integration, MNCs are impacted by globalization pressures, often in ways they cannot adequately control. As economies globalize, so do politics and stakeholder expectations that MNCs must negotiate as they manage their global operations. Working from the premise that CR strategies need to cohere with product and factor market strategies, the papers in this special issue make two contributions. First, they suggest that CR is an integral component of MNCs' market and non-market strategies. Second, in addition to multi-domestic CR strategies, MNCs should consider international and global CR strategies as well.

***Corresponding author: Aseem Prakash,** Professor, Department of Political Science, Walker Family Professor for the College of Arts and Sciences, University of Washington Seattle, 39 Gowen Hall, Box 353530, WA 98195-3530, USA, E-mail: aseem@uw.edu
Jennifer J. Griffin: Chair and Professor, Strategic Management & Public Policy Department, The George Washington University, School of Business, Washington, DC, USA

MNCs facing global pressures for competitive pricing and efficiency and local pressures to adapt to local customs, traditions and beliefs are seeking new ways to manage a portfolio of CR activities. Consequently, MNCs increasingly negotiate with an array of global stakeholders, global activist groups who oppose them, international regimes that govern them, and 24×7 media that scrutinize them. At the same time, MNCs face active investigations from stakeholders, political actors, and institutions in their home and host countries.

Our focus is on MNCs' portfolio of CR activities which pertains to policies aimed at creating positive social externalities beyond legal requirements. CR reflects an understanding that firms create shared value and it is in firms' best interest to look beyond short-term profits to address expectations of stakeholders such as suppliers, consumers, communities and governments in addition to shareholders (Griffin and Prakash, forthcoming). It recognizes that firms pursue profits while complying with extant law "without fraud or deception", function honestly, demonstrate environmental stewardship, treat their labor force with dignity, provide safe products/services and enhance the welfare of their many communities. That is, firms actively and effectively manage their multiple financial, workplace, product, and community impacts. In return, firms that are managed responsibly acquire the ability to be trusted, to differentiate themselves from rivals, to gather information from varied stakeholders to improve operations, create product/service innovations, and to signal their corporate stewardship to a range of stakeholders. Effective CR programs can potentially correct a failure in the market for virtue (Vogel 2005), thereby allowing firms to enjoy a de facto "social license to operate" (Gunningham et al. 2003).

CR critics, however, offer a less sanguine view. Echoing the theme espoused by Friedman (1970) a recent Heritage Foundation paper notes the following:

> *Like a vitamin regimen that exceeds recommended daily amounts, corporate social responsibility (CSR) – once seen as a healthy thing in small doses – now poses a toxic threat to American business... . However, if the latest and most radical wave of supposedly "voluntary" CSR standards, principles, and strategies is fully embraced by the corporate world, it will unleash additional efforts by CSR proponents (special-interest NGOs and intrusive government bureaucrats) to redefine the very purpose of business and lash private companies to ever greater burdens and constraints.*[1]

This special issue does not engage with debates about definitions such as whether CR policies are legitimate only when they have been purged of the profit motive, or debates about terminology of corporate social responsibility verses corporate responsibility versus corporate citizenship (Griffin and Mahon 1997; Margolis and Walsh 2003). Regardless of narrow or broad definitions, terminology or contribution to financial performance, CR has emerged as an important area of concern and opportunity for MNCs as a crucial element of MNCs' market and non-market strategies (Baron 1995; Prakash and Potoski 2007; Griffin and Prakash, forthcoming). This special issue explores how MNCs employ CR to respond to the sometimes conflicting and sometimes cohering expectations of domestic and global stakeholders, political actors, and home and host country institutions.

---

1 http://www.heritage.org/research/reports/2012/05/why-the-us-should-oppose-international-corporate-social-responsibility-csr-mandates.

International business strategy literature (Bartlett and Ghoshal 1989) identifies three approaches (global, international, multi-domestic) for MNCs to manage the twin pressures of globalization and localization for their product-markets. As MNCs expand to different locations, to maintain strategic coherence as well as to tap into managerial and technological economies of scale, they develop portfolios of top down (from headquarters to subsidiaries) processes of control and horizontal processes across subsidiaries of coordination for their product-markets. Yet, they sometimes need to grant some level of autonomy to their subsidiaries to respond to local socio-political issues. How MNCs seek to construct a balance between different processes of control and coordination depends on factors such as technological imperatives, product and factor market characteristics, maturity of their subsidiaries, the size of home versus host markets, the nature of the issue, and the socio-political institutions in which they operate.

In a narrow sense, CR can be viewed as an integral component of a firm's non-market strategy. Baron (1995) emphasizes the role of non-market environments in influencing market outcomes. Non-market environments consist of the "social, political, and legal arrangements that structure the firm's interactions outside of, and in conjunction with, markets" (Baron 1995: p. 48). These non-market environments consist of a wide range of issues, interests, information and institutions. Global product-market strategies are predicated on an integrated world market requiring firms to adopt a given strategy across countries. However, if political boundaries significantly impact the nature of product-markets then global strategies are less useful. International strategies require transferring parents' expertise to foreign markets while multi-domestic strategies are developed to respond to country-specific needs. Baron suggests that non-market strategies should be examined in the context of institutions, actors and issues. Since these often vary across countries, he calls for MNEs to adopt multi-domestic strategies, as opposed to global or international ones.

We build on prior literature in two ways. First, we suggest that CR is an integral component of both market and non-market strategies. Second, in addition to multi-domestic CR strategies, MNCs should consider international and global CR strategies as well. The premise is that a firm's socio-cultural, political strategies need to cohere with product and factor market strategies. If MNCs seek to adopt global product market strategies common across countries, they are also likely to adopt global CR strategies. Yet, if political boundaries and social customs significantly impact the nature of institutions MNCs must negotiate, global strategies may be less useful. On the other hand, if the institutional context requires responsiveness to local needs, multi-domestic strategies which require adapting to local markets and transferring parents' expertise may be preferable. Analogous to the product-market environment, multinationals' CR policies face similar global-local tensions across socio-political environments. Globalization creates incentives for governments and all stakeholders including transnationally networked citizen groups to influence firms and their subsidiary's activities. These individuals, organizations, and groups are aided by new channels of information flows, the ability to mobilize quickly, and a consolidating media industry whereby local events are quickly transformed into transnational news. In effect, multinationals face "two-level games" (Putnam 1988) in both product-market and socio-political environments where what they do in one sphere impacts the other one, and vice versa (Prakash 2002; Griffin and Koerber forthcoming).

The papers in this special issue examine the portfolio of CR choices MNCs make. Rafael Lucea (The George Washington University) and Jonathan Doh (Villanova University) paper, "International Strategy for the Non-market Context: Stakeholders, Issues, Networks, and Geography," starts from the empirical observation that CR strategies of MNCs tend to either consist of disconnected country-level social and political programs (multi-domestic approach) or reflect standardized CR policies applied uniformly across subsidiaries (global approach). Recognizing that MNCs institutional context is neither fragmented nor homogenized across countries, they emphasize that MNCs must negotiate varying levels of globalization of the non-market environments. Building on this intuition, they propose a model focused on four dimensions of the non-market context: stakeholders, issues, networks, and geography. They illustrate their model by describing four socio-political contexts frequently encountered by MNCs, and show how their more nuanced approach to a CR portfolio is superior to the prevalent global or multi-domestic CR approaches.

In contrast with the institutional and structural perspective offered by Lucea and Doh, the paper by Michael Barnett (Rutgers University) and Sunyoung Lee (University of California, Berkeley), offers an agentic perspective on CR in MNCs. Their paper, "Business as Usual? An Exploration of the Determinants of Success in the Multinational Transfer of Corporate Responsibility Initiatives," examines how MNCs manage the diffusion of CR initiatives across subsidiaries while facing different types of social, cultural and political expectations. Empirically, they examine the factors influencing the successful transfer of operational practices of CR initiatives. This is an important query because the CR literature tends to emphasize national differences between the non-market environments of MNCs' home and host countries for successful uptake of CR initiatives rather than an examination at the CR policy or CR activity level. Their findings suggest that information problems about local norms impede CR transfer processes. These information problems can be mitigated by active processes of information seeking simultaneously by the parent company and the local subsidiary. Overall, they find that the key variable in the success of the CR transfer process is the consultation with host country stakeholders and direct efforts to address their concerns. Thus, even when home country CR initiative have less initial fit with the socio-cultural context of their subsidiary, with appropriate consultation with stakeholders to incorporate their interests and efforts, such national differences in social norms and expectations can be bridged effectively.

The local-global debate on CR is moved forward by Dana Brown and Jette Steen Knudsen (both at Copenhagen Business School) in their article, "Managing Corporate Responsibility Globally and Locally: Lessons from a CR Leader." Their study compares the CR approach of the Danish MNC Novo Nordisk in the context of its subsidiaries in China and the United States. The case selection is instructive because unlike Denmark, CR is in its infancy in China and both countries vary in their non-market environments, a crucial driver of CR. The United States, in contrast, is more similar to Denmark in terms of the rootedness of the CR norm and similarities in the non-market environments firms face. The authors present a counter-intuitive finding: CR policies in Novo Nordisk's Chinese subsidiary are closer to its Danish parent's CR policies than those of the US subsidiary. They suggest that unlike the US case, the CR policies of the Chinese subsidiary are managed centrally from Denmark. Thus, wide disparity in the non-market context has led to standardization and a centralized approach to CR while similarities in the non-market context have given the parent company confidence to allow more leeway within its American subsidiary. This finding is important not only for the CR literature but for the broader social science literature examining the role of various isomorphic processes (DiMaggio and Powel 1983) in the cross-national diffusion of practices, policies, and norms.

While the state has an important role in shaping MNCs' non-market environments and their portfolio of CR strategies, the absence of effective state institutions and the inability of the state to provide basic public goods have important implications on CR as well. Of the 177 countries ranked by *Foreign Policy*/Funds for Peace 108 countries show significant levels of state failure.[2] How might then one think of CR in countries where the state is no longer an important influence on MNCs' non-market environment?

In their paper, "Does it Really Take the State? Limited Statehood, Multinational Corporations, and Corporate Responsibility in South Africa" Tanja Börzel, Jana Hönke, and Christian Thauer (all at Freie Universität Berlin) explore "areas of limited statehood" wherein state actors are too weak to effectively set and/or enforce collectively binding rules. One might think that that because MNCs do not face a (single) credible regulatory threat, they would have fewer incentives

2 http://www.fundforpeace.org/global/?q=fsi-grid2011/.

to invest in CR. After all, CR is often viewed as a strategic response by firms to coercive threats in their non-market environment, particularly, threats by regulatory agencies. Drawing on their fieldwork in South Africa, the authors suggest that the "shadow of anarchy" (that is, state failure), as opposed to the "shadow of hierarchy" (effective state) can serve to induce CR among MNCs. Prior research shows that MNCs in developing countries adopt CR policies when their overseas customers demand so (Prakash and Potoski 2006). This is more pronounced in consumer-facing industries which invest significantly in branding and marketing and are therefore seeking to safeguard their reputation and investments via CR. However, the authors show that even when reputational concerns are not paramount, MNCs still have incentives to undertake CR programs which serve as functional equivalents of the state.

Delving more deeply into the competitive and socio-political environments incentivizing (or disincentivizing) CR portfolios, the special issue also includes two papers focused on CR policies in a specific stakeholder relationship (employee-employee labor relations) and two papers in a specific industry (mining and extractive industries). In their paper, "Bargaining for Corporate Responsibility: The Global and the Local of Framework Agreements in the USA," Michael Fichter (Freie Universität Berlin), Dimitris Stevis (Colorado State University), and Markus Helfen (Freie Universität Berlin) examine Global Framework Agreements (GFAs) as a manifestation that firms accept global labor policy as an element of their CR and recognize labor unions as legitimate actors in implementing this policy throughout the corporation and its global production networks. Since the 1990s, Global Union Federations (GUFs), the international bodies of national sectoral unions, have negotiated more than 80 GFAs with MNCs, primarily headquartered in Europe. Unlike unilateral codes of conduct or multi-stakeholder arrangements, GFAs are negotiated between corporate headquarters and representatives of organized labor. Via GFA, MNCs extend "recognition" to GUFs as the legitimate representative of unions at the transnational level. GFAs are thus a reversal of MNCs' historical refusal to negotiate with labor unions beyond the nation-state. The paper explores why European corporations would continue to honor GFA in their American operations inspite of institutional opportunities not to do so. Indeed, GFAs as manifestation of CR promote more global rather than multi-domestic or transnational labor practices because they commit MNCs to ensure that their subsidiaries and supply chain adopt policies that are based on global standards while remaining sensitive to local circumstances.

The complexity of labor issues as a part of CR is further explored in the article, "Has Globalization Eroded Firms' Responsibility for their Employees? A Sociological Analysis of Transnational Firms' Corporate Social Responsibility Policies Concerning their Employees in the Netherlands, 1980–2010," authored by Sander Quak, Johan Heilbron and Romke van der Veen (all at Erasmus University, Rotterdam). The authors recognize that labor policies reflect both “explicit” and “implicit” CR (Matten and Moon 2008). Using a sociological approach they examine how globalization has influenced labor policies of two Dutch MNCs, electronics firm Philips NV and a financial services and insurance company ING, over time. A sociological perspective emphasizes MNCs’ social embeddedness and questions the atomistic perspective of firms that underlies many neoclassical economic arguments. This paper suggests global economic integration shifts the relative salience of firms’ embeddedness in national and transnational economic fields in favor of more heavily weighting transnational factors. They find, however, different parts of MNCs’ corporate labor policy display various degrees of embeddedness: certain parts are more regulated through national institutional arrangements than others. Human resource departments, for example, increasingly reflect the global economic imperatives of their (transnational) product markets. Recruiting, hiring, training and dismissal of employees, however, are still largely conducted on the national level. That is, rewards of individuals or groups of employees are still primarily determined on the national level (in the Netherlands on the basis of a collective labor agreement), but the level and composition of the reward system is affected by the development and deployment of transnational guidelines. Overall, they find that the influence of employees in the workplace and on broader company affairs has weakened since firms were restructured on the transnational level. Despite initiatives that transcend national borders – such as the European works council and transnational employee surveys –the position of workers in the Netherlands, in general, has weakened. Their disaggregated analysis of CR policies towards labor reveals a nuanced picture: national and transnational imperatives influence sub-elements of CR labor policy in different ways. Instead of a race to the bottom in firms’ labor policies motivated by the increasing salience of transnational embeddedness, the authors find certain CR policies reflecting (Dutch) national imperatives continue to prosper while others perish.

Turning to the mining and extractive industry, the article, “Multi-level Corporate Responsibility and the Mining Sector: Learning from the Canadian Experience in Latin America,” by Kernaghan Webb (Ryerson University, Canada) examines how a Canadian MNC operating in Latin America responded to the twin pressures of globalization and localization in developing its CR. The mining sector is particularly interesting to examine CR impacts given the finite nature of mining resources that create incentives for firms to maximize short-term profits, location specificity of its operations making firms’ exit options difficult with an acute impact on the local community with significant ecological, social and economic implications. The author finds that a dynamic multi-level approach to CR seems to be at work, involving an iterative home-host-global interaction, where corporate CR policies are adjusted to reflect host country conditions. While subsidiaries often face different and challenging operating conditions that may necessitate tailored CR approaches, MNCs might view this an opportunity: these distinctive CR approaches to address local conditions act as experimental laboratories for MNCs to develop their CR in the future. Thus, global CR practices informs local CR and local CR, in turn, can have a reciprocal influence on global CR as well.

Building on company-level case study offered by Webb, Douglas Schuler (Rice University) provides an industry level analysis of CR dynamics as reflected in the Extractive Industries Transparency Initiative (EITI) voluntary program. His paper, "A Club Theory Approach to Voluntary Social Programs: Multinational Companies and the Extractive Industries Transparency Initiative" conceptualizes this voluntary program as a club (Potoski and Prakash 2009) creating excludable incentives for its participants to contribute to the provision of public goods such as transparent and corruption free governance. The mining industry is a classic case of "resource curse" (Sachs and Warner 1995) in which mining royalties tend to get siphoned off by ruling state elites in return for favors they bestow on firms such as lax enforcement of environment laws or even suppressing human rights demands of local communities which in turn adversely affects mining operations. As part of the resource curse, local communities and neighbors do not benefit from mining revenues and suffer disproportionately the consequences of environmental plunder. Given that elites have developed alternative sources of revenue, they no longer need to tax and therefore entertain few accountability demands from tax paying citizens. Thus, mining, in particular, and natural resource sectors, more generally, has led to democracy and governance deficits. The Extractive Industries Transparency Initiative (EITI) seeks to address the unintended consequences of the resource curse by transforming the socially harmful relationship between mining firms and host governments. EITI is a multi-stakeholder initiative aimed at creating national legislation to make the royalty payments received by governments from mining and oil and gas companies more transparent to the public. The EITI does not impose stringent standards on its members and has a moderate to high level of enforcement. Consequently, one expects that membership in such voluntary CR programs will produce only low levels of positive reputational benefits for its members. Yet, more than 60 MNCs have signed on to the EITI as of April 2012. The paper finds that a range of factors located in home, host, and global environments have encouraged MNCs to join these types of voluntary programs. Specifically, membership in ETIT is encouraged when MNCs: are headquartered in countries with long arm disclosure laws; lack trusting relationships with NGOs; rely upon financing from institutional and social investors; attempt to differentiate themselves from competitors on social criteria; and have top managers with a broad focus on stewardship and stakeholders.

The lessons from this special issue are two-fold. First, the findings suggest that when implementing a portfolio of CR policies, the twin pressures of globalization and localization are neither a substitute for one another nor are they orthogonal. Global and local pressures often interact creating a home-host-global triplet for oversight rather than a singular super ordinate pressure. Thus, commonalities and differences in global and local pressures on firms' CR approach must be (a) acknowledged, (b) assessed for strengths and weaknesses, and (c) specifically addressed by MNCs to successfully navigate the competitive landscape going forward.

Second, when implementing portfolios of corporate responsibility (CR) programs globalization and localization pressures are complicated by socio-political pressures. The varied non-market (socio-political) environments faced by an MNC may be complementary, supplementary or in conflict with extant product-market practices. In controversial and visible contexts such as the mining and extractive industries, the opportunity for mutually reinforcing waves of discontent and active oversight from political institutions, groups, citizens, and individuals is exacerbating the local-global pressures on modern managers. Hence we find a growth in voluntary programs (e.g., EITI) and Global Framework Agreements (GFAs) on common issues such as human rights and labor policy. We also find a growth in the importance of information and adaptation for successful transfer of CR portfolios to local subsidiaries. Overall, while MNCs are often viewed as agents of integration, successful implementation of CR portfolios suggests selective and strategic local adaptation is also paramount.

References

Baron, D. 1995. "Integrated strategy: market and nonmarket components." *California Management Review* 37(2): 47–65.

Bartlett, C. A. and S. Ghoshal. 1989. *Managing across borders*. Boston, MA: Harvard Business School Press.

DiMaggio, P. and W. W. Powel. 1983. "The iron cage revisited." *American sociological review* 48: 147–160.

Friedman, M. 1970. "Social responsibility of business." *The New York Times Magazine,* September 13, 33: 122–126.

Griffin, J. J. and C. Koerber. "Forthcoming. Corporate responsibility and management: understanding global and local implications." In: T. L. Fort (ed.), *The vision of the firm and its governance*. Dordrecht, NL; Heidelberg, Germany; London, UK; NY: Springer.

Griffin, J. J. and J. F. Mahon. 1997. "The corporate social performance and corporate financial performance debate: twenty-five years of incomparable research." *Business and Society* 36(1): 5–31.

Griffin, J. J. and A. Prakash. Forthcoming. Corporate responsibility: initiatives and mechanisms. *Business and Society*.

Gunningham, N., R. Kagan and D. Thornton. 2003. *Shades of green: business, regulation and the environment*. Stanford, CA: Stanford University Press.

Margolis, J. D. and J. P. Walsh. 2003. "Misery loves companies: rethinking social initiatives by business." *Administrative Science Quarterly* 48: 268–305.

Matten, D. and J. Moon. 2008. "'Implicit' and 'Explicit' CSR: a conceptual framework for a comparative understanding of corporate social responsibility." *Academy of Management Review* 33(2): 404–424.

Potoski, M. and A. Prakash. 2009. *Voluntary programs: a club theory perspective*. Cambridge, MA: MIT Press.

Prakash, A. 2002. "Beyond seattle: globalization, the non-market environment, and business strategy." *Review of International Political Economy* 9(3): 513–537.

Prakash, A. and M. Potoski. 2006. "Racing to the bottom? globalization, environmental governance, and ISO 14001." *American Journal of Political Science* 50:347–361.

Prakash, A. and M. Potoski. 2007. "Investing up: FDI and the cross-national diffusion of ISO 14001." *International Studies Quarterly* 51: 723–744.

Putnam, R. D. 1988. "Diplomacy and domestic politics: the logic of two-level games." *International Organization* 42: 427–460.

Sachs, J. D. and A. M. Warner. 1995. Natural resource abundance and economic growth, development discussion paper no. 517a. Cambridge, MA: Harvard Institute for International Development.

Vogel, D. 2005. *The market for virtue*. Washington, DC: Brookings Institution Press.

DE GRUYTER DOI 10.1515/bap-2012-0018 — Business and Politics 2012; 14(3): 1–30

Corporate Responsibility, Multinational Corporations, and Nation States

Rafael Lucea* and Jonathan Doh

International strategy for the nonmarket context: stakeholders, issues, networks, and geography

Abstract: Multinational companies (MNCs) shape their nonmarket strategies in response to the social and political context in which they operate. Empirical evidence shows that these strategies frequently fall into one of two categories: they either consist of a disparate portfolio of disconnected country-level social and political programs or are composed of standardized corporate policies that are applied uniformly across geographies. The former type of strategy implies that MNC managers view their firm's context as extremely fragmented across country borders, while the latter reflects the perception of a highly homogeneous international environment. Yet, most industries and firms operate in a semi-globalized socio-political context. In this paper we propose that producing strategies that truly fit with the specific characteristics of an MNC's nonmarket context requires that this context be defined along four dimensions: stakeholders, issues, networks, and *geography*. Conceptualizing an MNC socio-political context in this way broadens dramatically the strategic choices of MNC managers. We illustrate the use of our model by describing four socio-political contexts frequently encountered by MNCs, and showing how alternative nonmarket strategies seem a better option than the standard "one-size-fits-all" or "every-country-a-different-strategy" approaches of today.

***Corresponding author: Rafael Lucea,** The George Washington University, Funger 401, 2201 G Street, N.W. Washington, DC 20052, USA, E-mail: rafel@gwu.edu
Jonathan Doh: Villanova University, Bartley Hall Rm 2079, Management, 800 Lancaster Avenue, Villanova, PA 19085, USA

1 Introduction

We propose that the nonmarket environment of contemporary MNCs is increasingly characterized as a cross-national network of overlapping interests, actors, and relationships; and that its relevance for corporate social responsibility (CSR) hinges on the fact that it is precisely at the intersection of the business, social and political arenas that CSR policies are defined and implemented (Husted and Allen 2011) (Figure 1). If, as a number of scholars (Brammer and Pavelin 2006) have pointed out, the effectiveness of CSR programs depends on how well they respond (or fit) with the company's environment,[1] it follows that a proper characterization of the company's international social and political environment is an indispensable first step in the development of successful CSR strategies for MNCs. In this paper, we seek to highlight the importance of assessing the geographic dimension of the socio-political context – what is often termed the "nonmarket environment" (Baron 1995) in which MNCs operate- in order to formulate and implement effective and sustainable strategic responses.

In order to provide some texture to our arguments we will start by presenting an example that demonstrates the increasingly complex, interwoven, diverse, and globally networked nature of MNCs interaction with social and political actors. In 2003, an international consortium of companies led by BP, the British oil company, began construction of a 1078 mile pipeline that would carry oil from the Caspian Sea to the Mediterranean city of Ceyhan. The so called Baku-Tbilisi-Ceyhan (BTC) pipeline would cross the borders of Azerbaijan, Georgia and Turkey. To make this project a reality, BP and its partners not only had to garner the support of all three national governments but also that of thousands of city councils, farmers associations and individual landowners, and a multitude of environmental, human rights and economic development non-government organizations (NGOs) from each one of the countries. The magnitude of the project also attracted the attention of foreign NGOs, large and small, that adopted a variety of stances vis-à-vis the project. Some of them, such as The Corner House, Platform, or Friends of the Earth UK frontally opposed the construction of the pipeline. Under the umbrella of the Baku Ceyhan Campaign and in conjunction with some local NGOs, they carried out a protracted advocacy campaign against BP both along the route of the pipeline and in a variety of developed countries including the UK, US, and Western and Central Europe. Other local and international NGOs, by contrast, assumed the role of monitoring agents. As such, they gave faith of the progress – or lack of it- of the environmental, health, education and economic development programs that BP had agreed to undertake along the pipeline as part of the package of conditions negotiated with the national governments. Finally, a third contingent of domestic and international NGOs, including Mercy Corps, Care International and Save

1 But see Wood (1991) for a much broader conceptualization of what constitutes corporate social performance.

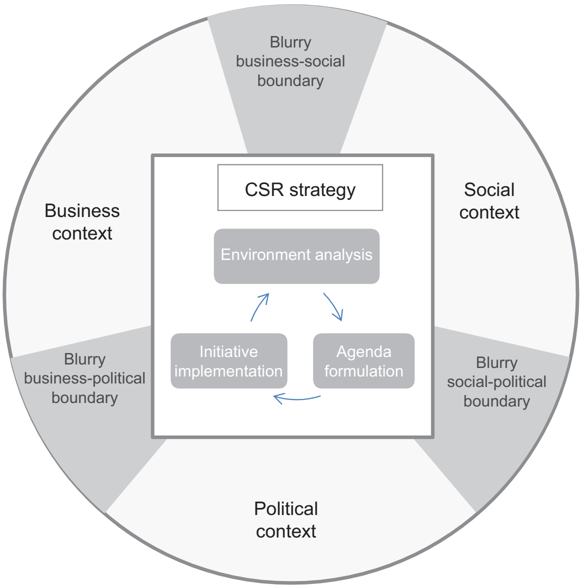


Figure 1 The relationship among the global business, social and political contexts; and CSR.

the Children, were hired by the consortium to design and implement the above-mentioned social programs.

While the BTC pipeline was of critical importance to BP, it was only one of a variety of strategic projects in which the company was involved at the time. Interestingly, BP and some of the NGOs involved in the BTC project also interacted in the context of other projects of the company. However, whether the relationship established between BP and an NGO was confrontational or collaborative varied from issue to issue. For example, WWF, the environmental NGO, was critical of BP with regard to the BTC project but collaborated closely with it in a natural gas project in Tangguh, Indonesia.

The example above is but one illustration of the increasingly complex non-market[2] context of MNCs in which (1) focal events span multiple countries, (2) state and non-state counterparts are located in different regions in the world, (3) activists may decide to apply pressure on the firm in one country to change corporate behavior in another, (4) firms' counterparts adopt different roles depending

2 We use the terms "nonmarket" and "social and political" environment/strategy interchangeably to refer to the range contextual conditions that emanate from outside of traditional markets, often driven by governments or civil society actors, and the strategies firms advance to response to those conditions.

on the issue at stake, and where (5) the most common form of coordination is through loose inter-organizational ties.

This scenario, represents a significant departure from the typical socio-political context in which MNCs operated just two decades ago (Prakash 2002). And yet, many of them seem to remain firmly anchored in a vision of the world where the (almost) only relevant non-firm actors are national governments, and where issues of concern are either global in scope (for example: climate change or human rights), or purely local and neatly bound within country borders (Baron 1996). Both extremes reflect disregard for the wide variation of institutional, cultural, economic and geographic contexts (Ghemawat 2003a) in which the firm interacts with its stakeholders, and for the fact that stakeholders located in different countries increasingly engage in collaborative activities with one another in order to increase the effectiveness of their claims against a company or group of companies (Keck and Sikkink 1998).

It is precisely to address this gap between existing theory and the social and political realities that MNCs have to face today that this paper is dedicated to exploring the role that the geographic location of a firm's stakeholders' play (or should play) in the development of a company's strategies. Since it is precisely at the intersection of the business, political, and social arenas that CSR programs are defined, the conceptual framework developed below is also highly relevant to the formulation and implementation of MNCs CSR strategies.

In terms of its practical application, we conceive our framework as a complement to other conceptual tools frequently employed in the assessment and analysis of the social and political context that informs MNC strategy formulation and implementation. Indeed, popular analytical tools such as Baron's 4i (Baron 1996), Bach and Allen's $(ia)^3$ (2010), or Frooman INSPIRE (2010), are as many arrows in the quiver of the nonmarket strategist. However, in our opinion, none is sufficiently suited to help assess the implications of an MNC stakeholders' geographic distribution, nor the impact that the domestic and cross-national relationships they establish may have on the company.

We begin this paper by assessing the implications of the geographic location(s) of an MNC, its competitors, allies, and various stakeholders, in an increasingly globalized world. We continue by summarily reviewing the strengths and weaknesses of the main paradigms used to describe and analyze an MNC's nonmarket context. We then propose a conceptual model that integrates these more traditional views and extends them by explicitly considering the implications of the geographic location of the MNC and its counterparts. We finish the paper by illustrating how our model helps MNC managers move beyond the polar extremes of "one-size-fits-all" or "every-country-a-different-strategy" approaches. In doing so, it presents the potential to improve the "fit" between the highly complex socio-political contexts of contemporary MNCs, and the strategies these organizations develop in response.

2 Geographic location in a globalized world

The concept of location is central to international business activity, even as the world purportedly is becoming "flatter" (Friedman 2005). Indeed, the role that location plays in the development of a firm's international competitive advantage is one of the long-standing concerns in the field of IB. At the risk of oversimplifying, the IB literature points at two main implications of location on MNC competitiveness. First, firms may *gain access to strategic resources* by virtue of being born or being located in a particular geographic area. Since access to these strategic resources is key to ensuring their international competitive advantage, identifying where these resources are located, gaining access to them, and leveraging them across country borders is one of the fundamental objectives of MNCs top managers. On occasion, it is not possible or cost effective for a firm to set up operations where a particularly valuable resource is located. In these situations, firms will try to gain indirect control of such resources by engaging in collaborative behaviors with organizations with established presence in that location that do have access to them. In sum, gaining control of strategic resources wherever they are located, whether directly or through joint ventures, and leveraging them across country borders is one of the fundamental elements of MNCs international strategy.

Central to this literature, and to our argument, is that "location-based resources" need to be conceptualized very broadly, including natural and human resources, cultural norms and values, relational capital, and legal and economic institutions (Dunning 1998; Dunning 2009). Hence, in the context of this paper, location is conceived not only in geographic terms, as in a given combination of longitude and latitude on a map, but *also* as a particular configuration of cultural, economic and institutional arrangements (Ghemawat 2007) that bear a direct influence on the opportunities and constraints of inter-organizational life.

In the opening example, BP was afforded privileged access to resources located in the UK as a result of its incorporation in that country and by being deeply embedded in its social, political and economic fabric. At the most basic level, these resources would include preferential access to natural resources in the North Sea, easy access to domestic and international capital markets, given London's preeminence as a financial center, or access to a large pool of highly educated professionals in some of the best professional and liberal arts colleges in the world. Equally important, though, are the strategic resources the company may derive from British institutions, including the protection granted by its regulatory framework, the financial and economic discipline required to operate in the UK, or the considerable sway that the British Department of Foreign Affairs enjoys around the world.

Considering business, social and political organizations in terms of their location also leads us to consider the concept of *distance*. That is, being "pinned" to a particular place, determines how near or how far an organization is from resources associated with other locations. Here too, it is important that we think of distance between countries not only in terms of distance in spatial terms but also in terms of the cultural, economic and institutional differences between two places (Kostova and Roth 2002; Ghemawat 2007). In terms of organizational strategy, distance poses two related dilemmas for firms. First, while entering distant countries is more costly and risky than entering proximate ones (Zaheer 1995), it also allows firms to tap into a very different pool of resources than the ones available in their home markets, offering them the potential to strengthen their competitive advantage (Ghemawat 2003b). Secondly, while operating in multiple locations increases tremendously the managerial complexity of the firm, it also renders the company more resilient to the potential shocks that the firm might experience in any one place. In the case of BP, operating in some 80-odd countries, allows the firm to tap into a broad variety of resources and to diversify its risk, but at the price of having to manage the tensions that inevitably arise from operating in countries with different, and sometimes conflicting, laws, cultures, histories and geopolitical interests.

While the effect of location has been extensively studied in the context of the international market environment of firms, we argue that it is equally relevant when it comes to conceptualizing their nonmarket environment. More concretely, we propose that location plays a fundamental role in determining the nature of claims stakeholders place on firms, the ways these claims are framed, the strategies stakeholders are likely to employ in service of them, and the amount and types of resources that they are able to mobilize in the pursuit of their objectives.

In terms of the example above, it is not irrelevant for BP that a considerable proportion of BTC-related stakeholders are powerful NGOs located in continental Europe, the US or the UK. Indeed, being headquartered in these locations grants these organizations access to unique resources that are not available to outsiders. For example, in addition to having access to a broad pool of financial resources in the form of members or foundation money, these organizations can exert pressure on (or support for) BP's endeavors in the project by using their countries' legal systems, something foreign nationals might not do, or by directly lobbying the company's bankers and financers on their way to work. Importantly, just as companies do enter collaborative agreements when they cannot access resources located in foreign countries directly, stakeholders engage in cross-border collaborative agreements to leverage the local resources that each has access to in order to influence corporate behavior (Keck and Sikkink 1998). In the BTC case, activists opposed to the project created the "Baku-Ceyhan Campaign" (http://www.baku.org.uk/), an international coalition of activist NGOs whose members exchanged information about the project, coordinated actions both along the BTC route and in their home countries, and served as an information hub for global audiences.

In addition to the anecdotal evidence provided by the BTC example, we find considerable support for our proposition in recent studies on north-south NGOs and on transnational networks of advocacy. These studies show the deep influence that location has on a broad variety of aspects of stakeholder behavior. Regarding the nature of claims, southern NGOs have been found to be primarily concerned about collective interests while northern NGOs focus more on individual human rights (Smith et al. 1998; Harris-Curtis et al. 2005). Regarding preferred strategies, northern NGOs are seen as privileging domestic and international policy-making, while southern NGOs are more likely to pursue their goals by means of grassroots pressure (Ahmad 2006). There is also an abundant body of work comparing "rich" northern NGOs with "poor" southern ones (Lindenberg and Dobel 1999) and the implications derived from such disparity to organizational behavior and outcomes.

As we consider these relational attributes of location, the contemporary actor network and transnational policy network literature is relevant in that it has demonstrated how activists are able to leverage their local capabilities and resources and integrate those with others to place pressure on corporations to engage in more socially responsible behavior (Keck and Sikkink 1998). Although transnational policy networks – *self-organizing groups that coordinate a growing number of public (decision-makers) and private (interest groups) actors for the purpose of formulating and implementing public policies* (Konig 1998) – were originally conceived as naturally involving governments, Heclo (1978) challenged this interpretation and offered an alternative – and increasingly realistic – notion, namely the "issue network" which still corresponds to a political subsystem but is much less stable than the prior conceptualizations in terms of membership and duration.

Hence, as we have noted above, *where* an MNC's stakeholders are located is of fundamental importance to its social and political strategy for two reasons. First, as a source of strategic resources, location matters because of its strong influence on what issues stakeholders care about, how they frame their claims, what means of engaging firms they deem legitimate and effective and, fundamentally, what kinds of resources and in what amounts they might be able to mobilize. And secondly, location in terms of "distance between stakeholders" matters because it reflects the potential they have to leverage locally-based resources across borders in pursuit of their goals. In addition, location-as-distance also matters to firms because it reflects the extent to which claims placed on the firm by different stakeholders are likely to be at odds with one another and, as a result, the extent to which customized or broad approaches to addressing those claims are more appropriate.

As a final consideration, it is also worth noting that the emergence of "private regulation" as an (Cashore 2002; Scheffer and Kaeb 2011) increasingly important mechanism for disciplining corporate behavior further complicates this equation. Indeed, as voluntary commitment mechanisms are agreed among firms and a variety of stakeholders at the global, regional, national, and local levels, developing nonmarket strategies that are responsive enough at multiple geographic levels becomes an exceedingly difficult challenge. A challenge that requires explicit consideration of geographic location in both the conceptualization of an MNC's context, and in the firm's nonmarket strategy.

3 Standard models for assessing the MNC context: Issues, stakeholders, and networks

Three main perspectives have dominated the academic and practitioner debate around how best to conceptualize an MNC's socio-political context. Table 1 below, an adaptation from Mahon, Heugens et al. (2003) provides a stylized summary of these three perspectives.

The first one, the Strategic Issue Management school (Ansoff 1980), takes the concept of issue as the organizing principle of the relationships between firms and their nonmarket environment (NME). Issues are viewed as "gaps between stakeholder expectations and an organization's policies, performance, products or public commitments" (Buchholz 1988). Issue management, therefore, is the process by which firms close this gap between expectations and reality. This can be done by either changing the firm's behavior or by altering stakeholders' expectations and perceptions about the behavior of firms.

A second approach, Stakeholder Theory (Freeman 1984; Donaldson and Preston 1995), is rooted in the idea that firms must respond to the claims of a variety of stakeholders whose actions -or inactions- can affect firm performance. Defining "*who* is a stakeholder, and what is a stake?" has been one of the key

	Stakeholder management	Strategic issue management	Network approach
Definition of the unit of analysis	"The stakeholders in a corporation are the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and that are therefore its potential beneficiaries and/or risk bearers." (Post, Preston and Sachs 2002)	Issues are the result of gaps between stakeholder expectations and an organization's policies, performance, products or public commitments (Bucholz 1988)	The network – defined in terms of actors (or nodes) and relationships between actors. Ties represent the exchange of resources (information, people, money) between nodes. (Mahon et al. 2003) Organizational fields – conceived as "a set of diverse organizations engaged in a similar function" (Scott 2001: p.137).
Primary research question	Who is a stakeholder When/how does it matter	Issue dynamics – how does an issue originates, grows, matures and dies Appropriate managerial response to issues	How to integrate stakeholders and issues. How does network structure affect actor (generally firm) behavior
What is managed	Stakeholders (individuals, organizations)	Issue evolution	Organizational field actors
Criterion guiding behavior	Power of the stakeholder as measured by (1) resources it may mobilize, (2) legitimacy of their claims, (3) and urgency of their claims	Stage in the issue life-cycle	Structure of the network and structural position of each actor
Goal	Placate powerful stakeholders – social peace – license to operate	Prevent formation of detrimental issues. Minimize damage once the issue has emerged.	Manage one's position in the organizational field to gain power over other actors in the network for productive issue resolution
Relevance of location	Generally, locational attributes of stakeholders are ignored or (implicitly) assumed irrelevant. When explicitly addressed (Baron 1995), stakeholders are depicted as local or national level actors.	Generally, locational attributes of issues are ignored or (implicitly) assumed irrelevant.	Generally, locational attributes of networks are ignored or (implicitly) assumed irrelevant.

Table 1 Three approaches to social and political environments [Table adapted and expanded from Mahon et al. (2003)].

concerns of scholars in this school of thought that has resulted in a "maddening variety [of ways in which] questions of stakeholder identification might be answered" (Mitchell et al. 1997). Arguably, this school of thought has been the one more closely associated with the concept of corporate social responsibility (CSR);[3] a concept that has been defined as "... actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams et al. 2006: pp. 1–18). While stakeholder management and CSR are distinct concepts, one variant of the CSR literature, "strategic" CSR (Baron 1996), focuses on how CSR initiatives may enhance the firm's overall position in the business environments in which it operates. McWilliams et al. (2006), and Husted and Allen (2011) expanded on Baron's view and asserted that a company's social practices are part and parcel of its business and corporate-level strategies. Hence, inherently advocating that the increasing inter-penetration of the market, social, and government facet's of a company's context should be reflected in a tighter integration of its market and nonmarket strategies. Figure 1 provides a simple illustration of this line of thought.

A third perspective, much more recently developed, has applied a social-network approach to the study of a firm's nonmarket environment. Authors adopting this perspective (Rowley 1997; Mahon et al. 2003), have focused not only on the *attributes* of the stakeholders but also on the *relationships* that a firm establishes with its stakeholders and the relationships that these stakeholders establish amongst themselves. Their main contribution has been to highlight that the structural position occupied by each actor in an organizational field may significantly influence its opportunities, constraints and behaviors (Wasserman and Galaskiewicz 1994).

In assessing the relative merits of each approach we find that in spite of acknowledging the need to account for the three main building blocks: issues, stakeholders, and relationships, much of the international business and business and society literature has tended to emphasize one of these perspectives over the others with the result that "to date, the field of nonmarket strategy has little to offer in the way of a truly integrated perspective [...] even though it is widely accepted that stakeholder behavior and issue evolution are delicately intertwined" (Mahon et al. 2003).

3 In some of the relevant literature, corporate social responsibility (CSR) and corporate responsibility (CR) are presented as somewhat distinct concepts, with the latter encompassing the entirety of internal and external approaches and policies and the former focused primarily on engaging with – and responding to – external stakeholders in the social sector. CSR is by far the more widespread concept, and we adopt it here for this reason.

In addition, current models tend to overlook the fact that one same firm may be involved in multiple issues at the same time (Mahon et al. 2003), and that interaction between these issues may result in deviation from what would be the "normal path" in the issue's life cycle (Bigelow et al. 1993). Similarly, it is often the case that powerful secondary stakeholders are involved in several of the issues that a firm is trying to address at any one point in time, and that their stance with regard to the behavior of the firm may vary on an issue by issue basis rather than support or oppose the actions of the firm across the board. While some authors, particularly of the network approach (Rowley 1997; Mahon et al. 2003; Lenox and Eesley 2009), have attempted to incorporate some of these real world complexities in their models, none that we know of fully captures the multiple interactions that occur between a focal firm, the multiple issues in which it is involved, and the various networks of stakeholders whose claims it needs to address.

When considering business-societal interactions in the global arena, one final – and critical – shortcoming of current models resides on their scant attention to the role played by geography. By contrast, research in the fields of sociology and political science have helped broaden our understanding of (1) the challenges faced by MNCs as they expand their activities across increasingly diverse social and political environments, and (2) of the implications associated with the fact that a growing number of social and political actors located in different countries establish increasingly strong ties across national borders. With regard to the first point, the comparative capitalism perspective of Whitley (1999) and others has highlighted that despite apparent similarities in basic systems of governance and economic architecture among advanced industrialized countries, considerable variation exists in the particulars of how norms and preferences are manifest within those systems. Regarding the second point, literature has emerged during the last decade that has documented the dynamics of transnational advocacy networks (Dahan et al. 2006), global civil society (Yaziji and Doh 2009), and the differences between "northern" and "southern" nonprofit organizations (Lindenberg and Dobel 1999). This body of work suggests that assuming away the role of geography is a gross oversimplification of the functioning of the socio-political context of MNCs, and that presuming that all relevant relationships between a firm and its stakeholders are neatly contained within the boundaries of a country is simply incorrect.

For these reasons, we suggest that effective nonmarket and CSR strategies for MNCs need to be grounded on a more nuanced and finely variegated characterization of a firm's social and political environments. A characterization that should integrate the main elements of the three approaches described above, and that, in addition, should situate geographic location at the front and center of the context assessment and strategy formulation processes.

4 An integrated model for MNC context assessment

In order to integrate the three perspectives of business-societal relationships summarized above while fully recognizing and incorporating the role of geographic location, the starting point of our model builds on the concept of "issue-network" (Heclo 1978; Sikkink 1993). More concretely, we define an issue-network as *the network of relationships between a focal firm and a collective of societal stakeholders, as well as the relationships that these same stakeholders weave among themselves in response to an issue directly involving the focal firm*. Since most firms are simultaneously involved in multiple stakeholder issues (Bigelow et al. 1993), we can then define a company's social and political environment as *the aggregation of issue-networks that the firm needs to address at any one point in time*.

Understanding the functioning and power of this model requires that we start by describing in some detail the main characteristics of its basic building blocks: issues, stakeholders, and relationships.

4.1 Issues

What constitutes an "issue" is probably one of the most contested concepts in the business and society literature. For example, Kingdon (1984) defines issues as "social problems [...] requiring managerial attention when they are defined as being problematic to society or to an institution within society." Ansoff (1980), describes them as "forthcoming development[s]...likely to have an important impact on the ability of the enterprise to meet its objectives."

These commonly accepted definitions of "issue" are problematic on two accounts. On the one hand, conceptualizing issues as social problems, developments, or trends, opens the door to defining an issue in terms that are too broad for meaningful managerial intervention – such as trying to address the issues of human rights or global warming. At the other extreme, issues might be defined at such a micro level that coherent organization-wide responses become unfeasible. A second limitation of the standard definitions above is that they portray issues as something inherently threatening for firms. This need not be the case. As an increasing number of instances of collaboration between firms and communities and NGOs show, the outcome of an issue may turn up to be beneficial for both sides. In order to sidestep both problems, we propose that issues are most effectively operationalized as concrete instances or events such as a project, a product, or a firm policy that generate gaps between the expectations of a number of stakeholders and the firm's behavior. Therefore, mapping the nonmarket environment of a firm requires that we start by identifying these focal points around which nonmarket action is likely to take place.

4.2 Stakeholders

The second element in our model are the firm's stakeholders. Following Freeman (1984) we define them as parties *that can affect or be affected by the actions of a firm*. Centrally for our model, not all stakeholders are interested, much less involved, in all of the issues the firm needs to address. The various collectives of stakeholders bound by a particular issue will be referred to in our model as "issue-networks." The concept of issue-network was developed and primarily employed in the political science (Heclo 1978) and public policy domains (Skok 1995). Issue-networks have been defined as "individuals and groups with shared knowledge about some aspect of public policy" (Heclo 1978) or "a network of organizations that include NGOs, intergovernmental organizations and private foundations [...] driven by shared values or principled ideas" (Sikkink 1993). In sum, an issue-network is a set of organizations that share a common interest or concern regarding a specific issue.

As pointed to by Rowley (1997), traditional stakeholder theory approaches are built on the principle that organizational attributes of stakeholders are the main factor determining their power and influence over firms or over other stakeholders. The most common stakeholder attributes used in empirical and theoretical work include the type of relationship it has with the focal firm (primary or secondary stakeholders), the size of the organization, the human, financial and informational resources it can mobilize, its social capital, its reputation, its attitude (positive or negative) towards the focal firm, and whether it engages primarily in advocacy or service delivery, among very many others. Shockingly, one organizational attribute that rarely makes this list is the actual location of residence of the stakeholder.

While this oversight may be due in some cases to the empirical context of the study, we contend that "where" a firm's stakeholders are located is a critical stakeholder attribute that needs to be added to the list above if we are to develop effective CSR strategies. As explained in the previous section, the relevance of location stems from the fact that some of the most important sources of leverage of social and political actors over firms is tightly linked to their being embedded in the socio-political fabric of a particular locale.

4.3 Relationships

In social networks analysis, a tie reflects some kind of interdependence between the two nodes it links. As such, we can think of ties as reflecting a broad spectrum of relationships, ranging from sentiments of friendship or animosity, to exchanges of information or other resources, to involvement in a particular issue or arena.

As a number of authors in the earlier described network tradition have pointed out, it is necessary to go beyond the use of networks as metaphors (Smith 1980) and use them as analytical devices to inform action. In order to do so, it is imperative to tightly define the kind of relationship being measured, and to establish the presence or absence of such kind of tie between every potential pair of actors in the specific setting under consideration. Ideally, analysts should also strive to determine the directionality of the tie (unidirectional or reciprocal) and its strength.

For the purposes of this paper, we will determine that there is a tie between any two nodes (firm to stakeholder or stakeholder to stakeholder) if *"they engage directly with one another in regard to a particular issue generated by the focal firm."* Note that this is a broad definition of relationship and that depending on the research question at hand it would be possible to raise the level of specificity and define the relationship in terms of, for example, "transfer of financial resources or information in connection with a specific issue," "organization of a demonstration to oppose the focal firm with regard to a particular issue," or "collaboration with the focal firm to address a given problem."

4.4 Location

Having described the building blocks of our model, it is now necessary to explain how including locational considerations provides a more complete picture of MNCs' socio-political environments than existing conceptual models do. It does so in three ways. First, by explicitly specifying the *stakeholder* attribute "place of origin" or "place where it operates" we can assess the geographic concentration of the focal firm's stakeholders and produce a rough estimation of the location-bound resources available to them. In the BP example, observing the location of origin of the firm's stakeholders reveals a considerable spread across countries. While the vast majority are located in developing countries and have limited access to financial, human, or institutional resources, a much more limited number of secondary stakeholders from developed countries (among which are some developed country governments) have access to important location-bound resources that they can use to support or oppose the company's actions.

As a second step, we can overlay this stakeholder-level information with information on the *issues* each stakeholder is involved in. This would help us to not only identify the geographic scope of a particular issue and the overall level of stakeholder involvement in each country, but also the degree to which stakeholders are involved in a single or in multiple issues. Following with the example above, thinking in terms of issue-networks, allows us to see the very different nature of the three issues that BP needs to address. On the one hand, the Alaskan pipeline project involves, almost exclusively, stakeholders located in the USA and Canada whose concerns are centered on the environmental impact that the construction of the proposed pipeline would entail for the Arctic flora and fauna. By contrast, the Tangguh issue-network involves a mix of regional stakeholders as well as some NGOs based in the UK. In this case, in addition to making sure that BP's development of the giant gas field will not endanger the pristine natural environment on which it is located, the firm's stakeholders are centrally concerned with the impact that the project will have on the primitive economic make-up of the region. Finally, the BTC issue-network is the most complex of the three, in terms of the types of stakeholders involved, their geographic spread, and the nature of the issues at stake: in contrast with the previous two issue-networks, the geostrategic importance of the Caspian Sea, where the oil feeding the pipeline is produced, and the volatile nature of the areas that the pipeline goes through, raises concerns in multiple areas, including environmental impact, economic development, respect for human rights, and the balance of power between some of the world's most powerful countries. In addition to better defining the nature of the claims and the strategic resources that the firm stakeholders can mobilize in the pursuit of their interests, thinking of BP's social and political environment in terms of issue-networks also allows us to identify the degree to which stakeholders overlap across issues. In this case, three non-government organizations based in the UK, The Corner House, Platform, and Friends of the Earth-UK, are involved in all three issue-networks. As pointed out by Marres and Rogers (2008), this is of relevance given that stakeholders involved in multiple issues might leverage their strong position with regard to one issue to force firms to make concessions in a different arena.

Our conceptual model allows for a third level of specificity by superimposing information about the *relationships* established among the firms' stakeholders on the issue-network map. Accounting for the relationships among stakeholders allows identification of not only the overall structure and density of the network and the centrality of specific players (as in Rowley 1997) but, importantly, may help us also identify how tight is the link between stakeholders from different countries. This type of information can also be used to identify stakeholders that bridge cross-border structural holes (Burt 1992). Irrespective of the resources over which these actors have direct control, their influence in mobilizing actors across borders and coordinating action against or in favor of the firm is likely to be of fundamental importance.

Returning again to the BP example, we can appreciate considerable differences in the structure of relationships between BP's Alaskan and BTC issue-networks. In the former, the company has to address the issues raised by pro-drilling activists represented by Arctic Power, a grassroots organization that aggregates the interests of various local industry associations, chambers of commerce, and local governments, as well as claims of a much more diffuse array of groups opposing the development of ANWR grounded in environmental concerns and respect for the rights of aborigines. By contrast, the structure of relations in the BTC issue-network is characterized by a well-defined and coordinated resistance and a much more diffused local level support for the project. Tellingly, the main grassroots organizations opposing the project and organizing local and international level campaigns against BP are not located in any of the countries the pipeline crosses, but in its home country, the UK, where these organizations can use British institutions to challenge the actions of the company at home and abroad.

In sum, we suggest that in order to fully understand the complexity and uniqueness of a company's cross-border social and political environment, it is appropriate to combine the insights of existing models and explicitly consider the role geographic location plays in relation to issues, networks, and stakeholders (see Figure 2).

5 An illustration of the model

Having developed our conceptual model, we will now proceed to illustrate how it can help MNCs assess their socio-political context in a more sophisticated manner than traditional approaches, and, in turn, formulate strategies that more closely respond to the opportunities and constraints presented by the firm's context. In line with strategy scholars (Powell 1992; Naman and Slevin 1993; Peteraf and Reed 2007), international business (Cavusgil and Zou 1994; Hultman et al. 2009), and stakeholder theory (Brammer and Pavelin 2006) traditions, we suggest that the performance of an MNC's nonmarket strategy will depend on the "fit" between the characteristics of its unique social and political context and the firm's international nonmarket strategy. In other words, a company will thrive to the extent that it develops an appropriate response to the pressures of its environment.

As noted above, the role and importance of the state in international nonmarket strategy is widely documented; here we seek to build on the growing literature on the increasing role of NGOs (Yaziji and Doh 2009) within the issue network framework and how they influence and affect firms both directly and via their relationships with state actors (Doh and Teegen 2002).

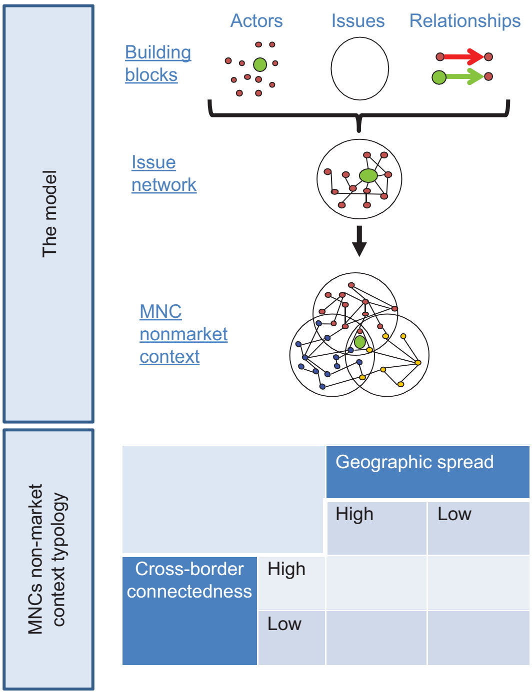


Figure 2 Conceptualization of cross-border social and political contexts, strategic implications.

In assessing strategic fit, we start by drawing from standard IB logic by proposing that a firm's cross-border nonmarket environment be described along two dimensions: its geographic spread and its cross-border connectedness.

5.1 Geographic spread

The geographic spread of an MNC's socio-political context evaluates the extent to which a firm's nonmarket environment is concentrated in a few geographic areas or dispersed across many countries. It is important to emphasize here that by conceiving a firm's nonmarket environment in terms of stakeholder-issue-networks, its geographic spread may considerably differ from the firm's competitive or operational footprint. For example, if there is no gap between a firm's behavior and its stakeholders' expectations (i.e.: there is no "issue") in a given country, the relevance of that location in nonmarket terms is extremely limited. By contrast, the geographic scope of a stakeholder-issue-network may very well expand beyond the specific countries where the company operates, as the BTC case exemplifies.

A firm's nonmarket geographic spread can be operationalized in a variety of ways using the framework defined above. Specific measures used by the analyst may range from the very simple to the very complex, and will surely vary depending on the industry and the specific circumstances of the firm. A simple measure might involve merely counting the number of countries in which the firm has stakeholders. A more complex indicator might be the development of a Herfindhal-like index indicating the degree to which the nonmarket environment of a firm is highly concentrated or widely dispersed across countries. While our conceptual model allows for the development of a broad variety of indices, the appropriateness of one or another will, obviously, depend on the nature of the research question under consideration.

Consistent with the concept of location developed above, high levels of nonmarket geographic spread implies that a firm's stakeholders will have access to a broad variety, although not necessarily in large amounts, of resources. It also implies that the nature of the claims placed on the firm may be very diverse and potentially conflicting with one another. In both cases, the level of managerial complexity is likely to increase as the scope of a firm's nonmarket environment expands. On the positive side, a firm's exposure to multiple cultural, institutional, economic, and geographic nonmarket environments implies heightened opportunities for learning and innovation (Zahra et al. 2000; Doz et al. 2002), and for the development of distinct nonmarket capabilities that the firm may leverage across countries.

5.2 Cross-border connectedness

In contrast with the concept of geographic spread, a firm's level of cross-border connectedness measures the extent to which a firm's issue-networks span country borders. In other words, it evaluates whether the *relationships* of a firm's issue-networks link stakeholders located in different countries or if, by contrast, each issue-network is neatly circumscribed within the borders of a single country. In the BTC example, not only were the company's stakeholders spread among very many countries but they had also established a very peculiar pattern of cross-country relationships – with a few NGOs located in the UK acting as information hub, brokering resources, and coordinating advocacy campaigns both along the pipeline's route and in developed countries.

As with the previous construct, cross-border connectedness can be operationalized in a number of ways: from simply counting the number of cross-border relationships or calculating the density of cross-border ties of a firm's nonmarket environment, to developing measures of cross-border centrality or cross-border structural holes. Also as before, the specific measure will depend on the research question under investigation.

Whereas the concept of geographic spread intends to reflect the variety of institutional environments that a firm will need to respond to, the concept of cross-border connectedness measures the extent to which these environments are linked to one another. Where cross-border connectedness is nonexistent, firms can address the specific claims of their issue-networks independently of one another and develop highly context-specific responses for each one. In cases where cross-border connectedness is high, a more systemic approach is required given that local actions (or inactions) may easily have global implications.

5.3 Four common MNC nonmarket contexts and their managerial implications

While the international nonmarket reality of most MNCs probably falls along a continuum in both measures, for analytical simplicity we propose a typology of cross-border nonmarket environments based on crossing both dimensions and assuming they can only take one of two values: high and low. Thus defined, a firm's international nonmarket environment may present one of four configurations: high spread-high cross-border connectedness, high spread-low cross-border connectedness, low spread-high cross-border connectedness, and low spread-low cross-border connectedness. As developed below, each of these ideal types presents firms with distinct sets of challenges that require specific strategic and organizational responses.

5.4 Low spread, low international cross-border connectedness

Environments characterized by low levels of geographic dispersion and cross-border connectedness present moderate levels of added complexity relative to the base-case of purely domestic nonmarket environments. Indeed, while in this scenario a firm's stakeholders have access to a broader variety of resources and the firm may need to respond to a broader variety of claims, low levels of connectedness make the cross-border leverage of those resources by stakeholders a rare occurrence. This type of environment is normally associated with companies in their early phases of internationalization that operate in not particularly sensitive (Miles 1987; Rowley and Berman 2000) industries.

The pressures placed on firms by this type of environment require that they develop some level of location-specific nonmarket expertise in order to properly respond to the specific claims placed upon the firm in each country. Because of the low levels of cross-border connectedness, however, the firm's responses can be highly customized to the institutional characteristics of each country and do not require particularly high levels of cross-country coordination. Organizationally, the amount of resources required to address the nonmarket environment in each country will depend on the number and nature of the claims on the firm in that country, the number and power of the stakeholders involved, and the structure of (within country) relationships they establish. The relative independence of the nonmarket environments that the firm confronts in each country also calls for limited levels of cross-border coordination and alignment mechanisms. Frequently, units or individuals charged with the management of nonmarket environments in each country report directly to the country manager and have limited interactions with their functional counterparts in other countries.

5.5 Low spread, high international cross-border connectedness

In contrast with the previous scenario, when strong ties among stakeholders located in different countries are present firms need to respond to their claims in a much more systemic manner. Nonmarket environments of this kind frequently arise when the focal event is geographically located close to a country border and affects individuals or groups on both sides of the border, or when a socially or environmentally sensitive project is carried out by firms in different countries.

Continuing with examples from the oil industry, a situation of this kind arose when a consortium of oil firms operating in Ecuador decided to build the *Oleoducto de Crudos Pesados* (OCP) – Pipeline of Heavy Crudes, in Spanish – with financing from the German bank West LB. West LB is partly owned by the German state of North Rhine-Westfalia that, at the time, was governed by the German Green Party. Concerned environmentalist groups in Ecuador contacted German NGOs tightly connected with the Green Party and both groups started to exchange information about the potential impacts of the project and the nature of the involvement of the bank. A few months later, environmental groups staged coordinated advocacy campaigns in both countries aimed at pressuring the project's partners and governments to stop the project. And when this failed, they engaged both the OCP consortium and the bank to make sure that the pipeline would not present a danger to the delicate ecosystem of the Amazonian forest it would cross. While the nonmarket environment of the OCP consortium was not geographically very spread, the tight links between the activists in both countries meant that country-specific responses would not satisfy the claims of the firm's stakeholders.

The OCP example highlights some of the strategic imperatives of firms operating in low geographic spread and high connectedness environments. As in the previous scenario, firms will need to gain considerable knowledge about the functioning of nonmarket actors and institutions in each country. Also as before, with increased distance, in the multidimensional sense of distance developed above, the challenge will be greater, and more substantive resources will need to be employed by firms to develop such expertise. Under these conditions, however, identifying the actors or for a that serve as liaison between the stakeholders in the various countries will be of critical importance. Indeed, understanding the structure of the issue-networks in each country and of the mechanisms that link them will be of crucial importance for firm managers in order to develop an accurate understanding of the claims placed upon the firm, the distinct resources stakeholders may mobilize in each country, and how they might leverage them across borders in the pursuit of their goals (Foreman 1999).

Organizationally, the need to provide responses that simultaneously satisfy constituencies in multiple geographies requires a considerably higher level of coordination between the various units involved in the management of the nonmarket environment of the firm. In scenarios like the one described here, headquarters tend to adopt a leading role in terms of (1) framing the position of the firm with regard to the claims of stakeholders, (2) estimating the overall impact of the various potential responses the company might provide, (3) allocating resources across countries, and ultimately (4) coordinating and monitoring the firm's overall response.

5.6 High spread, low international cross-border connectedness

This profile, depicting a broadly spread but highly fragmented nonmarket environment, embodies the predominant view that business academics and practitioners have held about the nature of multinational companies' nonmarket environments in recent times. As Baron (1995) put it, "a comprehensive global or international nonmarket strategy seems unlikely to be successful, however, because strategies must take into account the institutions in whose context nonmarket issues are addressed, the configuration of interests in a country, and other country-specific factors." While we question that this scenario is the only possibility for all multinational firms, there is abundant evidence that many of the issue-networks of contemporary multinational firms are still neatly contained within the boundaries of a single country.

The geographic scope of the "not-in-my-backyard" (NIMBY) issue-networks is an appropriate illustrator of this profile. NIMBY movements define situations in which groups of individuals or organizations attempt to exclude themselves from the consequences of policies which in general they support. Current examples might include the opposition to locating chemical or nuclear plants, wind farms, transportation improvement projects, fast food chains, or retail stores. Typically, multinational firms operating in these industries need to respond to a broad number and variety of issue-networks that are rarely connected to one another either nationally or internationally.

While the issues faced by these companies have the common denominator of their projects being opposed by the local communities, the way these issues are framed, the resources commanded by stakeholders, and what is deemed legitimate firm and stakeholder behavior vary widely on a country by country (and even on an issue by issue) basis. As a result, multinational firms in these environments need to develop local nonmarket expertise in a large variety of countries and will be inclined to develop local responses to address local stakeholders' claims.

While it might seem that the managerial implications of this scenario are similar to the first one, the broader geographic footprint faced by companies in this case carries two important differential implications. On the one hand, the level of managerial complexity increases substantially. Indeed, as the geographic spread of a firm's nonmarket environment increases, so does the variety of institutional settings where it needs to develop distinct competencies, limiting the possibility of achieving economies of scale in the exploitation of its nonmarket resources. On the other hand, the variety of institutional settings, opens up greater learning and innovation opportunities in the nonmarket domain. Paralleling established insights from the fields of strategy and IB (Doz et al. 2002; Lessard and Lucea 2009), we should expect that as firms develop innovative responses to address stakeholders' claims in different contexts, they may find out their new approaches are transferable, to a greater or lesser extent, to other countries in which they operate.

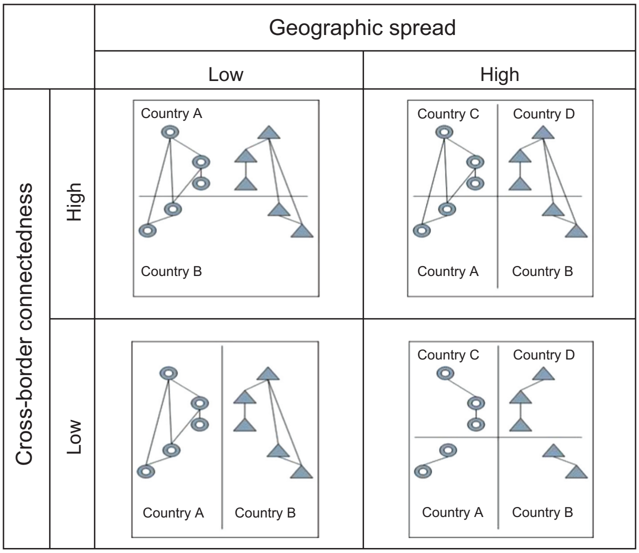
5.7 High spread, high international cross-border connectedness

Nonmarket environments characterized by broad geographic spreads and high levels of cross-border connectedness are the most challenging to manage. In these environments, not only do stakeholders have access to a wide-ranging spectrum of resources, but they are also potentially able to mobilize them in a coordinated fashion across country borders.

As depicted in the BP case, mature multinational companies increasingly operate in this type of environment, which some authors have characterized as a "global fish bowl" (Blackett 2003; Savitz and Weber 2006). This circumstance has been attributed to the development of information and telecommunication technologies, generalized decrease in transportation costs, tighter economic integration, the development of a new global social awareness (Robertson 1992; Guillen 2001), and, more generally, to the globalization of the private, government and social sectors (Prakash 2002). While we agree with the fact that the potential for issues to become global and stakeholders to become international actors has increased as a consequence of all of these developments, it is important not to assume that all firms, by default, operate in a scenario like the one depicted here. Indeed, despite the decrease in costs associated with transferring information and other resources, or with organizing international campaigns, there still remain substantial barriers that stakeholders need to overcome in order to globalize their claims and engage firms in a holistic manner. In support of this perspective, numerous studies have pointed out that the different logics, interests, and resources of "northern" and "southern" civil society groups frequently result in less than perfectly coordinated inter-organizational action among these groups when not in outright confrontation.

Thus, keeping in mind that while operating in a globalizing world does not always equate with broadly spread and highly interconnected nonmarket environments, firms who do find themselves in such situations face a particularly complex dilemma. On the one hand, highly spread nonmarket environments are usually associated with a broad variety of issues that firms need to address and/or with large differences in the most effective way to address a particular issue. On the other hand, high levels of international connectedness mean that its actions in one country are quickly noticed and diffused internationally. Formulating and implementing ICSR strategies in such an environment is a delicate balancing act of substantive responses to specific claims of stakeholders in each country and s high levels of coherence, in form and content, at a cross-country level. Unlike in previous scenarios, failure to do so may give rise to consequences at a systemic, not just local, level. In order to fulfill the strategic challenge imposed by this type of environment it is crucial for companies to develop a deep understanding of the various local nonmarket environments where they operate, closely monitoring the overall structure of the relationships among its stakeholders, and identifying which actors occupy particularly important positions in such networks. Under these circumstances, ICSR policies gain considerably in stature within the organization and frequently become are intimately integrated with the firm's business strategy.

Figure 3 provides a graphic representation of the scenarios just described as well as the main strategic implications of each.



This table and the figures contained each cell are a graphic representation of the four international nonmarket environment ideal types a firm may potentially encounter. The elements that constitute our model are represented in the following way in the graphs: Stakeholders are represented by the nodes in each cell. These nodes can take two forms, circles or triangles, depending on whether they are associated with issue A (circles) or issue B (triangles). Further, the relationships established among stakeholders are depicted as the lines linking two nodes. Finally, country borders are represented by the vertical lines and country labels. To keep the representation as simple as possible, the links from the focal firm to the various stakeholders have been omitted (one could imagine an invisible line linking the eye of the reader – the focal firm- to each of the nodes in a cell). Also, note that the number of stakeholders, number of issues and pattern of relationships is essentially the same in all four scenarios. Given this setup, let us consider the various ideal types of nonmarket environments a firm can encounter depending on the level of cross border connectedness (CBC) and geographic spread (GS):

1. Low CBC-Low GS – bottom left cell-: In this case the firm would need to respond to two issue-networks, each contained within the confines of one country. As a result, IS would be limited to two countries and CBC would be nonexistent (there are no links from country A to country B.
2. High CBC – Low IS – upper left cell-: There is no change in IS relative to the previous scenario given that the nonmarket environment of the firm is still spread across two countries. However, there are three cross-country links in the circle issue network, and two in the triangle issue network.
3. High CBC – High GS – upper right cell-: Even though the network structure is the exact same as in the previous case, stakeholders are now spread across four countries, increasing dramatically the breadth and depth of resource pools they can potentially access, as well as the level of complexity of the nonmarket environment of the firm.

(**Figure 3** continued)

4. Low CBC – High GS – lower right cell-: In this final scenario, IS remains unchanged (the nonmarket environment of the firm still spans four countries), but CBC drops to zero by virtue of the disappearance of the ties linking stakeholders in countries A and C, and countries B and D. Effectively, the firm can treat the situation in each of the four countries independently from one another although the issues it needs to address are exactly the same in some countries.

Figure 3 Cross-border social/political taxonomy.

6 Contributions, limitations, and future research

6.1 Contributions of the model

Our model offers insight into the nature of an MNC socio-political context that is difficult to attain using any of the established conceptual approaches. Specifically, it establishes a clear and inextricable link between the issues a company needs to address, the firm's stakeholders, and the relationships between stakeholders and the firm, and among stakeholders. By jointly considering the power a stakeholder derives from its financial and human capital (as strategic issue management and stakeholder theory do) and its social capital (as network approaches do), MNC managers will be better able to prioritize which stakeholders' claims to address and how to more efficiently allocate the company's resources to that end. Operationally, this would involve weighing some standard measures of the importance of an NGO (annual budget, number of affiliates, etc) with some measure of network centrality. Secondly, our model explicitly contemplates that a company may be engaged with the same set of actors in multiple issues or may be dealing with a completely different set of actors in each one of the issues with which it is involved. Thirdly, it also allows for the common occurrence that the relationships that the firm establishes with a particular actor may differ in nature, sign and intensity depending on the issue because firms, governments and other nonmarket stakeholders do not engage with each other in a monolithic way but tend to be quite discriminating of the positions they take depending on each specific issue. Fourth, our model also acknowledges that a firm's nonmarket environment is formed by issues of differing potential impact that may unfold simultaneously but that may be at different stages in their life cycle (Bigelow et al. 1993).

Finally, it emphasizes the uniqueness of each MNC's socio-political context: since no two firms are engaged in the exact same issues in the same capacity, each organization's nonmarket environment is unique and will have a decisive influence on its overall performance and chances of survival.

6.2 Limitations and future research

Despite the specific contributions of this paper, space limitations prevented us from developing some important aspects of the model. In particular, there is room for explicit consideration of temporal and dynamic elements in our model.

Adding an evolutionary dimension to our framework, for example, by integrating Bonardi and Keim's (2005) research on how information and reputation have cascading effects that can fundamentally alter a company's context, could represent an important extension of our ideas. Similarly, it will be important to explicitly examine the antecedents of the transformation of the global context in which MNCs operate. For example, the increasing foot-looseness of governments and, very specially, civil society organizations has very serious strategic and organizational implications for multinational firms that we have not developed in this paper.

Looking forward, we view the ideas presented in this paper as the beginning of an exciting field of enquiry. Future research might empirically test the prevalence of the four types of MNC socio-political context we have proposed in the previous section, as well as the specific forces and triggering events that result in MNCs transitioning from one of the quadrants in our taxonomy to another. Obviously, future studies will concern themselves with the relation between the specific characteristics of an MNC's nonmarket environment and the company's social and financial performance. Another avenue for research involves investigating the proactiveness of firms in managing their nonmarket environment. Indeed, this presentation of the model assumes the firm's nonmarket context as exogenously determined. This is not the case: a firm's nonmarket environment is not something that "is out there" placing claims on the firm irrespectively of what the firm does in the competitive arena (Cantwell et al. 2010). A firm's nonmarket environment is informed, but not fully determined, by what the company does and, as a result, MNCs have to be thought also as strategic actors that may, to some extent, shape their nonmarket environment in order to improve their long term performance. Finally, our conceptual framework could readily be used from the perspective of civil society organizations and (or) individual governments. Indeed, while our focus in this paper has been the multinational corporation, thinking strategically from the perspective of civil society organizations or governments would only require slight adaptations of the principles developed here.

As the world becomes increasingly interconnected, it is imperative that MNC managers bring geographic location to the front and center of their context assessment and strategic planning processes. Moreover, as the boundaries between economic, social, and political arenas continue to blur, it will also be crucial for them to consider how so called "nonmarket strategies," including CSR programs, impact the level of performance of their firms. The model presented in this paper is a first, and crucial, step in the quest to develop effective and sustainable MNC strategies that fully integrate the business and socio-political dimensions of MNCs.

References

Ahmad, M. M. 2006. "The NGO debate in 'development.'" In: M. C. Behera (ed.), *Globalising rural development: competing paradigms and emerging realitites*. New Dehli: Sage.
Ansoff, H. I. 1980. "Strategic issue management." *Strategic Management Journal* 1: 131–148.
Bach, D. and D. B. Allen 2010. "What every CEO needs to know about nonmarket strategy." *Mit Sloan Management Review* 51(3): 41–48.
Baron, D. P. 1995. "Integrated strategy – market and nonmarket components." *California Management Review* 37(2): 47–65.
Baron, D. P. 1996. *Business and its environment*. Englewood Cliffs, NJ: Prentice Hall.
Bigelow, B., L. Fahey and J. F. Mahon. 1991. "Political strategy and issues evolution: A framework for analysis and action." In: K. Paul (ed.), *Contemporary issues in business ethics and politics*. Lewiston, NY: Edwin Mellen. pp. 1–26.
Blackett, T. 2003. "What is a brand?" In: R. Clifton and J. Simmons (eds.), *Brands and branding*. The Economist/Profile Books: London.
Bonardi, J. P. and G. D. Keim. 2005. "Corporate political strategies for widely salient issues." *Academy of Management Review* 30(3): 555–576.
Brammer, S. J. and S. Pavelin. 2006. "Corporate reputation and social performance: the importance of fit." *Journal of Management Studies* 43(3): 435–455.
Buchholz, R. A. 1988. *Public policy issues for management*. NJ: Prentice-Hall.
Burt, R. S. 1992. *Structural holes: the social structure of competition. structural holes: the social structure of competition*. Cambridge: Harvard University Press. Ch. 1–2.
Cantwell, J., J. H. Dunning and S. M. Lundan. 2010. "An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment." *Journal of International Business Studies* 41(4): 567–586.
Cashore, B. 2002. "Legitimacy and the privatization of environmental governance: how non-state market-driven (NSMD) governance systems gain rule-making authority." *Governance-an International Journal of Policy and Administration* 15(4): 503–529.
Cavusgil, S. T. and S. M. Zou. 1994. "Marketing strategy-performance relationship – an investigation of the empirical link in export market ventures." *Journal of Marketing* 58(1): 1–21.
Dahan, D., J. P. Doh and T. R. Guay. 2006. "The role of multinational corporations in transnational institutional building: A policy-network perspective." *Human Relations* 59(11): 1571–1600.
Doh, J. P. and H. Teegen. 2002. "Nongovernmental organizations as institutional actors in international business: theory and implications." *International Business Review* 11(6): 665–684.
Donaldson, T. and L. E. Preston. 1995. "The stakeholder theory of the corporation – concepts, evidence, and implications." *Academy of Management Review* 20(1): 65–91.

Doz, Y., J. Santos and P. Williamson. 2002. *From global to metanational: how companies win in the knowledge economy*. Cambridge: Harvard Business School Press.

Dunning, J. H. 1998. "Location and the multinational enterprise: a neglected factor?" *Journal of International Business Studies* 29(1): 45–66.

Dunning, J. H. 2009. "Location and the multinational enterprise: a neglected factor?" *Journal of International Business Studies* 40(1): 5–19.

Foreman, K. 1999. "Evolving global structures and the challenges facing international relief and development organizations." *Nonprofit and Voluntary Sector Quarterly* 28(Suppl 1): 178–197.

Freeman, E. R. 1984. *Strategic management: a stakeholder approach*. Marshfield, MA: Pitman Publishing.

Friedman, T. L. 2005. The world is flat: a brief history of the twenty-first Century, Farrar, Straus and Giroux.

Frooman, J. 2010. "The issue network: reshaping the stakeholder model." *Canadian Journal of Administrative Sciences-Revue Canadienne Des Sciences De L Administration* 27(2): 161–173.

Ghemawat, P. 2003a. "Semiglobalization and international business strategy." *Journal of International Business Studies* 34(2): 138–152.

Ghemawat, P. 2003b. "The forgotten strategy." *Harvard Business Review* 81(11): 76–84.

Ghemawat, P. 2007. *Redefining global strategy; crossing borders in a world where differences still matter*. Boston, MA: Harvard Business School Press.

Guillen, M. 2001. "Is globalization civilizing, destructive or feeble?" *Annual Review of Sociology* 27: 261–281.

Harris-Curtis, E., O. Marleyn and O. Bakewell. 2005. "The implications for northern NGOs of adopting rights-based approaches." In: INTaR Centre (ed.), Oxford: INTRAC.

Heclo, H. 1978. "Issue networks and the executive establishment." In: A. King (ed.), *The new american political system*. Washington, DC: The American Enterprise Institute.

Hultman, M., M. J. Robson and C. S. Katsikeas. 2009. "Export product strategy fit and performance: An empirical investigation." *Journal of International Marketing* 17(4): 1–23.

Husted, B. W. and D. B. Allen. 2011. *Corporate social strategy: stakeholder engagement and competitive advantage*. Cambridge: Cambridge University Press.

Keck, M. E. and K. Sikkink. 1998. *Activists Beyond Borders: advocacy networks in international politics*. Ithaca: Cornell University.

Kingdon, J. H. 1984. *Agendas, alternatives and public policies*. New York, NY: Harper Collins.

Konig, T. 1998. "Modeling policy networks." *Journal of Theoretical Politics* 10(4): 387–388.

Kostova, T. and K. Roth. 2002. "Adoption of an organizational practice by subsidiaries of multinational corporations: institutional and relational effects." *Academy of Management Journal* 45(1): 215–233.

Lenox, M. J. and C. E. Eesley. 2009. "Private environmental activism and the selection and response of firm targets." *Journal of Economics and Management Strategy* 18(1): 45–73.

Lessard, D. and R. Lucea. 2009. "Mexican multinationals; insights from CEMEX." In: R. Ramamurti and J. V. Singh (eds.), *Emerging multinationals from emerging markets*. Cambridge: Cambridge University Press.

Lindenberg, M. and J. P. Dobel. 1999. "The challenges of globalization for northern international relief and development NGOs." *Nonprofit and Voluntary Sector Quarterly* 28(4): 4–25.

Mahon, J. F., P. P. M. A. R. Heugens and K. Lamertz. 2004. “Social networks and nonmarket strategy.” *Journal of Public Affairs* 4(2): 170–189.
Marres, N. and R. Rogers. 2008. “Subsuming the ground: how local realities of the Fergana Valley, the Narmada Dams and the BTC pipeline are put to use on the Web.” *Economy and Society* 37(2): 251–281.
McWilliams, A., D. S. Siegel and P. M. Wright. 2006. “Corporate social responsibility: Strategic implications.” *Journal of Management Studies* 43(1): 1–18.
Miles, R. A. 1987. *Managing the corporate social environment: a grounded theory*. NJ: Prentice Hall.
Mitchell, R. K., B. R. Agle and D. J. Wood. 1997. “Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts.” *Academy of Management Review* 22(4): 853–886.
Naman, J. L. and D. P. Slevin. 1993. “Entrepreneurship and the concept of fit – a model and empirical testS.” *Strategic Management Journal* 14(2): 137–153.
Peteraf, M. and R. Reed. 2007. “Managerial discretion and internal alignment under regulatory constraints and change.” *Strategic Management Journal* 28(11): 1089–1112.
Post, J. E., L. E. Preston and S. Sachs. 2002. Managing the extended enterprise: The new Stakeholder view. *California Management Review* 45(1): 6.
Powell, T. C. 1992. “Organizational alignment as competitive advantage.” *Strategic Management Journal* 13(2): 119–134.
Prakash, A. 2002. “Beyond seattle: globalization, the nonmarket environment and corporate strategy.” *Review of International Political Economy* 9(3): 513–537.
Robertson, R. 1992. *Globalization: social theory and global culture*. London: Sage.
Rowley, S. R. and S. L. Berman. 2000. “A brand new brand of corporate social performance.” *Business and Society* 39: 397.
Rowley, T. J. 1997. “Moving beyond dyadic ties: A network theory of stakeholder influences.” *Academy of Management Review* 22(4): 887–910.
Savitz, A. W. and K. Weber. 2006. *Triple bottom line; how today’s best-run companies are achieving economic, social, and environmental success – and how you can too*. San Francisco, CA: John Wiley and Sons, Inc.
Scheffer, D. and C. Kaeb. 2010. “The five levels of CSR compliance: The resilience of corporate liability under the Alien Tort Statute and the case for a counterattack strategy in compliance theory.” *Berkeley Journal of International Law* 327–353.
Scott, W.R. 2001. *Institutions and organizations* (2nd ed.). Thousand Oaks, CA: Sage.
Sikkink, K. 1993. “Human rights, principled issue-networks, and sovereignty in Latin America.” *International Organization* 47(Summer): 411–442.
Skok, J. E. 1995. “Policy issue networks and the public policy cycle: A structural-functional framework for public administration.” *Policy and Implementation* 55(4):325–332.
Smith, C. 1980. “Social networks as metaphors, models and methods.” *Progress in Human Geography* 4(December): 500–524.
Smith, J., R. Pagnuco and G. A. Lopez. 1998. “Globalizing human rights: The work of transnational human rights NGOs in the 1990s.” *Human Rights Quarterly* 20(2):379–412.
Wasserman, S. and J. Galaskiewicz. 1994. *Advances in social network analysis: research in the social and behavioral sciences*. Thousand Oaks, CA: Sage.
Whitley, R. 1999. *Divergent capitalisms: the social structuring and change of business systems*. Oxford: Oxford University Press.

Yaziji, M. and J. P. Doh. 2009. *NGOs and corporations; conflict and collaboration*. Cambridge: Cambridge University Press.

Zaheer, S. 1995. "Overcoming the liability of foreigness." *Academy of Management Journal* 38(2): 341–363.

Zahra, S. A., R. D. Ireland and M. A. Hitt. 2000. "International expansion by new venture firms: International diversity, mode of market entry, technological learning, and performance." *Academy of Management Journal* 43(5): 925–950.

DE GRUYTER DOI 10.1515/bap-2012-0019 — Business and Politics 2012; 14(3): 1–27

Corporate Responsibility, Multinational Corporations, and Nation States

Michael L. Barnett* and Sunyoung Lee

Business as usual? An exploration of the determinants of success in the multinational transfer of corporate responsibility initiatives

Abstract: Scholars have shown that corporate responsibility (CR) initiatives can create intangible assets that help MNCs reduce their liability of foreignness and even gain competitive advantage over local rivals. But scholars have not addressed the ability of MNCs to transfer CR initiatives to subsidiaries. This study builds theory about the conditions that influence success and failure in the transfer of CR practices from headquarters to overseas subsidiaries. We analyze CR transfers from the headquarters of an Indian multinational to its subsidiaries in China and the U.K. Our findings suggest that CR transfer differs in substantial ways from operational practice transfer. In particular, the ambiguity of the CR initiative, the social competency of the business unit transferring the CR initiative, and the active involvement of local stakeholders play significant roles in CR transfer success.

***Corresponding author: Michael L. Barnett,** Rutgers Business School, Newark & New Brunswick, Rutgers, The State University of New Jersey, 1 Washington Park, Room 1110, Newark, NJ 07102, USA, Phone: +(973) 353-3697, E-mail: mbarnett@business.rutgers.edu
Sunyoung Lee: Haas School of Business, University of California, Berkeley, CA 94720, USA

1 Introduction

As the geographic footprints of firms expand, so too do their social footprints. Many multinational corporations (MNCs) have recognized their obligations and interests in managing their broad social impacts and have undertaken corporate responsibility (CR) initiatives that span country boundaries. But little is known about how MNC's should manage the spread of CR initiatives across geographically, culturally, and politically diverse subsidiaries. Management scholars have offered broad advice to manage CR initiatives "precisely" as firms manage any other business initiative (McWilliams and Siegel 2001: p. 125). And there exists a well-established body of literature on managing the transfer of operating practices across subsidiaries of an MNC (e.g., Prahalad and Doz 1987; Bartlett and Ghoshal 1989). But the effectiveness of using established business logic, or any other approach, to manage the cross-country transfer of CR initiatives has not been thoroughly studied.

Should McDonald's, for example, use the same approach to transfer CR initiatives from the United States to India as it uses to transfer menu items from Oak Brook to Mumbai? To discern an answer to this open question, we conduct an exploratory study of a large MNC's efforts to transfer CR initiatives from its headquarters to its subsidiaries in other countries. Some of the initiatives were successfully transferred but some were not, and the same initiative often met with differing fates across subsidiaries.

We find that, indeed, many of the factors that determine success in the transfer of operational practices also determine success in the transfer of CR initiatives. For example, in consonance with the technology transfer literature, mutual adaptation through firm and stakeholder interaction appears to increase the likelihood of success (cf. Leonard-Barton and Sinha 1993). But in contrast to extant literature, national differences between home and host country do not seem to play a significant role. We attribute this in part to the importance of collaboration in CR transfer. Though a home country initiative may have less initial fit with the social norms of one subsidiary than another, if the CR initiative is transferred in a way that entails significant consultation with stakeholders and incorporates their interests and efforts, then even substantial national differences can be bridged effectively.

We begin with a brief overview of the literature on CR and MNCs, noting the gap that exists in explaining the successful transfer of CR initiatives. Thereafter, we describe our exploratory study and then discuss the findings. Our analysis of the transfer of CR initiatives from the headquarters of a large MNC to its subsidiaries reveals key factors in the transfer process that influence the likelihood of transfer success. We conclude with a discussion of the implications of these factors for future research on the transfer of CR initiatives in MNCs.

2 CR and MNCs: Mind the gap

2.1 Getting down to business

CR entails the voluntary allocation of a firm's private resources toward initiatives that appear to have public benefit (Barnett 2007).[1] For example, when the McDonald's Corporation allocates a portion of its profits to its hospice charity, the Ronald McDonald House, it is engaging in an act of CR. Why would a firm voluntarily allocate its private resources to the public good? There are strong arguments to be made that despite the private costs, corporations have an ethical obligation to engage in CR. But perhaps more convincing to corporations, a strong economic argument can also be made. Stakeholder theory argues that the better a firm manages its relationships with those who can affect it – its stakeholders – the more successful it will be over time (Freeman 1984). In particular, instrumental stakeholder theory (Jones 1995) views the firm as a nexus of contracts (Jensen and Meckling 1976) and explains that a firm may minimize transaction costs, and so increase competitive advantage, by developing trusting stakeholder relationships (Wicks et al. 1999).

Engaging in CR is one of the primary mechanisms through which a firm may foster and maintain trusting stakeholder relations. As Jones (1995: p. 430) noted, "Certain types of corporate social performance are manifestations of attempts to establish trusting, cooperative firm/stakeholder relationships and should be positively linked to a company's financial performance." Hundreds of studies have since emerged that attempt to validate a "business case" for CR. Though the results are mixed (Margolis and Walsh 2003), there is considerable support for a positive relationship between a firm's social and financial performance (Orlitzky et al. 2003).

As the business case has gained primacy as a justification for allocation of firm resources to CR, so too has the idea that CR may be viewed not merely as a cost of doing business but as an investment and, accordingly, should be managed akin to other business investments (e.g., McWilliams and Siegel 2001). Yet there have been few studies of how firms actually manage their CR initiatives (see Griffin and Prakash, in press, for recent advances) and so little basis upon which to assess the merits of handling CR in the same way as other business investments. The hundreds of studies investigating the business case

1 CR has been labelled and defined in many ways (Griffin and Prakash, in press). We use the term CR here rather than CSR, CSP, corporate citizenship or other similar terms, to be consistent with the special issue theme.

for CR have focused primarily on comparing the financial performance of firms engaging in more CR initiatives to those engaging in fewer (Margolis and Walsh 2003). Thus, the lessons learned from these studies concern whether or not a firm should pursue differentiation through high levels of investment in social responsibility (e.g., Barnett and Salomon 2012), not how to better manage any of the CR initiatives undertaken. But, if implemented poorly, a CR initiative may not only fail to deliver favorable returns but can damage stakeholder relationships and render the firm worse off than had it not invested (Tichy et al. 1997). Thus, it is important for managers to understand not just how much CR to take on, but also how to manage those CR initiatives that they do take on.

2.2 The business case across borders

Even less is known about how CR should be managed within MNCs (cf. Husted and Allen 2006). Given the difficulty of obtaining social and financial performance data across countries, CR studies often focus on a single country. Yet CR initiatives of MNCs often spread beyond borders, and many have made high profile errors when implementing CR initiatives in subsidiary countries. Clearly more insights are needed.

Gardberg and Fombrun (2006) created a conceptual model that outlines how corporate citizenship initiatives create intangible assets that help firms overcome their liability of foreignness (Hymer 1976; Zaheer 1995). They argue that these initiatives should be made to fit the particular institutional environment of the host country, but they do not explain how firms might vary in their ability to achieve fit, nor do they test their ideas. Husted and Allen (2006) approach this gap with a survey of the social strategies of MNCs in Mexico. Their findings suggest that inertia more than strategy dictates how subsidiary social initiatives are managed, as firms tend to default to the same overall approach to social initiatives as they had assumed in their product markets. However, they looked only at the overall strategies reported by the MNCs and did not explore how particular social initiatives were implemented.

If we approach CR from the same perspective as other business decisions, though, then extensive guidance exists. Previous studies have recognized that MNCs manage their strategic assets by transferring them from headquarters to subsidiary units, but the transfer process is wrought with challenges (Ghoshal and Bartlett 1988; Kostova 1999). The factors affecting transfer success include national differences in organizing principles (Kogut 1991) and the degree of disparity between institutions of the MNC's home and those of the host market (Kostova 1999). At the organizational level, Ghoshal and Bartlett (1988) argue that the degree of normative integration of the subsidiary into the MNC affects the subsidiary's ability to adopt innovations. Similarly, the relationship between the recipient and the sources of the knowledge (e.g., lack of motivation or perceived reliability) affects the success of transfer (Szulanski 1996). Prior research also shows that certain dimensions of what is being transferred influence success (e.g., Winter 1987; Zander and Kogut 1995). Some single out attributes such as “codifiability” (Rogers 1980; Winter 1987; Zander and Kogut 1995) and “communicability” (Rogers 1980) as central to the success of transfer.

But there is reason to suspect that the lessons of operational practice transfer are less than perfectly applicable to CR initiative transfer. A firm can successfully transfer an operational practice to a subsidiary unit through an entirely internal, closed process. However, the successful transfer of a CR initiative entails managing relationships with external parties – the stakeholders of the subsidiary unit. Thus, CR transfer is considerably more complex, going beyond the dyadic firm-subsidiary relationship to encompass multiple exchange partners outside the firm (Freeman 1984). Further, the success of any particular CR initiative in a subsidiary unit can be evaluated on a variety of dimensions, some rather intangible. Thus, establishing clear and concrete strategic goals to aim for in transferring CR initiatives can prove difficult. Drawing on extant theories of the transfer of operational practices, but cognizant of how they differ from CR initiatives, we next outline our exploratory study of the transfer of CR initiatives within an MNC.

3 Data and methodology

To understand the keys to success in the transfer of CR initiatives, we examine the process and outcome of the transfer of multiple CR initiatives from the headquarters (HQ) of Infosys, a large and geographically diverse Indian MNC specializing in consulting, technology and outsourcing, to its subsidiaries. Our unit of analysis is the transfer of a particular CR initiative to a particular subsidiary. We analyze the transfer of four CR initiatives[2] from Infosys HQ to each of two subsidiaries, China and the UK. Each initiative was transferred to each subsidiary, generating a total of eight transfers.

We develop our understanding from semi-structured interviews, a three-month long participant observation at the HQ, and a thorough review of company

2 Infosys used many terms interchangeably, to include initiatives, activities, programs, and practices. For sake of consistency, we use the term “initiative” when referring to the overall umbrella CR initiative. Any initiative may encompass multiple activities, programs, and practices as a means of achieving the overarching aims of the initiative, as described in the Analysis and Findings section.

documents.[3] We interviewed a range of senior managers (to include the CEO and COO of the firm and the heads of each subsidiary), employees, and external stakeholders in India (40 interviewees) and at each subsidiary (20 at one subsidiary and 10 at the other). Each interview lasted for one hour on average and covered topics regarding the implementation of CR initiatives in multiple locations, the process of CR transfer, and the causes of transfer success and failure. Interviewees typically provided their perspectives on multiple CR initiatives, and so each CR initiative was described by at least three interviewees.

Infosys provides services to client firms in more than 30 countries and prides itself on its ability to efficiently and effectively adapt its services to the demands of myriad country settings. Thus, Infosys is well versed in operational practice transfer. Further, Infosys has developed a diverse portfolio of CR initiatives and prides itself on its social and ecological performance across its holdings. Infosys thus provides a relevant setting to study how CR initiatives are transferred within an MNC. Of further benefit, Infosys is headquartered in a developing country, a context that has been the subject of calls for more CR research (e.g., Visser 2008). More specifically, by studying Infosys we gain the opportunity to explore the emerging giants hypothesis. Khanna and Palepu (2001) argue that the strengths that MNCs in developing countries must develop in order to overcome challenges in their home markets provide them an edge over MNCs without such origins when competing in other developing countries. Thus, we can investigate the extent to which this emerging giants hypothesis holds within a CR context.

Classifying a particular initiative as CR entails subjectivity. Individuals differ in what they consider to be CR, with some viewing most any corporate initiative as providing public benefit (cf. Friedman 1970). To cope with this, we relied on the perceptions of the corporate insiders we interviewed for this study. The initiatives used in this study were deemed to be CR by multiple informants at Infosys.[4] This sort of perception-based identification of strategic initiatives is commonly used in the transfer literature (e.g., Kostova 1999).

3 Company documents include Infosys' annual reports, founders' messages, Infosys' official blogs, and its research magazines. Other materials consulted were internal to the company, with limited distribution. These materials include the minutes of the internal meetings, slides of presentation files, and briefing reports.

4 Informants also identified the CR initiatives used in this study as instrumental to the firm's long-run performance – that is, strategic. Non-strategic CR initiatives such as philanthropic donations were outsourced to the Infosys Foundation. We selected only strategic CR initiatives because CR initiatives of lesser importance might not be subjected to "business case" analysis or receive enough organizational attention to allow us to distinguish the factors that determined their failure or success.

Though a CR initiative may be intended to provide public benefit, few if any will benefit the entire public. In accordance with Global Reporting Initiative guidelines, Infosys designated which stakeholder groups their CR initiatives were primarily oriented toward. We chose our sample to ensure it contained initiatives with both internal and external orientation. Internally oriented CR initiatives are those that are primarily intended to benefit the firm's employees,[5] whereas externally oriented CR initiatives are primarily intended to benefit those outside the firm such as consumers, suppliers, the community, and the environment. This delineation of internal and external stakeholder orientation is a common way to categorize CR initiatives (cf. Husted 2001).

Infosys has a global footprint, with subsidiaries in many countries. To keep our study manageable, we studied the process of transferring CR initiatives to subsidiaries in two countries. We chose India and China in order to produce variation in institutional distance.[6] India and China share a relatively small institutional distance, whereas India and the UK share a relatively large institutional distance (Kostova 1997). Institutional distance – the difference between the regulative, cognitive, and normative institutional environments of the home country and the host country – can be a significant barrier to transfer success (Kostova 1999). Further, a number of empirical studies have shown that differences in institutional environments between countries affect expectations about corporate responsibilities to society (Doh and Guay 2006; Matten and Moon 2008). Therefore, institutional distance may be a significant factor in CR transfer success.

The four initiatives used in the study were selected to encompass the full range of outcomes for our dependent variable of interest (cf. Eisenhardt 1989): CR transfer success. So that we could better isolate the causes of transfer success and failure, we selected one initiative that was transferred successfully to both subsidiaries, one initiative whose transfer failed at both subsidiaries, one initiative that was

5 With internally oriented CR initiatives, the mix of private (firm) and public (society) benefit can be more muddled. All the CR initiatives, whether internal or external, are intended to provide private benefit ultimately, as they are considered to be instrumental to firm long-run performance, and so justifiable from a "business case" perspective. With internally oriented CR initiatives, though the private benefit is more direct (boosting employee morale, lowering turnover, etc.), there is still public benefit (and so they are examples of CR): the firm is going "beyond compliance" (cf. Griffin and Prakash, in press) in providing additional benefits to employees, in promoting employee efforts to engage in the community, and in being part of efforts to pursue broader social changes overall.

6 We considered alternative conceptualizations and measures of cross-country differences such as cultural (Kogut and Singh 1988) and psychic (Johanson and Vahlne 1977) distances, as well as location effects (Lucea 2007; Marquis, Glynn and Davis 2007). However, institutional distance is a more comprehensive measure that incorporates dimensions of these other measures, so we chose to use it.

successfully transferred to China but failed when transferred to the UK, and one initiative that failed when transferred to China but was successfully transferred to the UK.

Prior research conceptualizes transfer success not only as the adoption of an initiative by a subsidiary, but as the institutionalization of the initiative at the recipient unit. Institutionalization denotes not merely implementation but also acceptance of the initiative's value by those in the subsidiary (Kostova 1999). Accordingly, we deem a CR initiative to have been successfully transferred if it became institutionalized in the host country; those not were deemed failures.

To determine the institutionalization, and so success, of each CR initiative transfer, we turned to multiple sources both within and outside the firm. Our interviews in India and the subsidiaries provided rich but subjective and potentially self-serving views on success. Therefore, we supplemented the interview evidence with data from internal and publicly available documentation. Internal documents included the resources on Infosys' intranet, dashboard for CR, and internal presentation files, which provided information such as histories and impacts of each project. The corporate dashboard reported several indicators: continuity of projects, number of beneficiaries, and amount of investment involved. It was a key internal reference to the Infosys Sustainability Executive Council, which oversaw the implementation of Infosys' CR initiatives. To assess reliability, we conducted a respondent validation (Yin 1994; Green and Thorogood 2004) by sending the evaluations back to the corporation for review. This procedure served as a check that the researchers' and the insiders' accounts tallied (Green and Thorogood 2004).

4 Analysis and findings

4.1 Initiative I: Transparency – Successful transfer to both subsidiaries

Most interviewees first mentioned transparency when asked about Infosys' CR initiatives. They provided a range of examples of how transparency was implemented in their daily work. They enthusiastically confirmed it as a unique factor that provided the company with an edge over competitors. External documents support interviewee reports. Infosys established an unusual reputation for probity, honesty and transparency (Khanna and Palepu 2004: p. 490). Infosys was a recipient of numerous awards for its corporate governance and corporate social responsibility, including "Best Investor Relations Award" by IR magazine in 2010 and "Best Managed Company" in India by Finance Asia. Standard and Poor's (2004) gave Infosys a high rating on transparency of ownership. "When in doubt, disclose it" is said to be Infosys' credo. As the credo suggests, transparency-related CR initiatives at Infosys were the most noticeable in its financial reporting and disclosure.

Though clearly identified within and outside the firm as a key Infosys CR initiative, transparency is not particularly amenable to conceptualization as a discrete or concrete CR initiative. Infosys managers often claimed that transparency was in the firm's DNA without specifying a precise definition of transparency, as exemplified in the quote below:

> *The reputation of being transparent is based on multiple points. It's not just one point. It's been initiated since the inception by the founders and has been followed by leaders at the various levels. We also show examples by adopting global benchmarks; for example, knowledge management benchmark, security, infrastructure, all follow global standards... We have been consistently recognized for corporate governance and accounting initiatives for consecutive years as well as for our advice on transparency. We work on e-governance projects in India for several state governments. [Head of Europe at Infosys]*

This ambiguity regarding the definition of the initiative and its bounds allowed a spectrum of actions, processes, and products relating to transparency, depending on context. Examples include transparent CEO remuneration policies, transparent pricing, financial accounting information disclosure, transparent governance structure, and transparent decision-making.

We expected such ambiguity to hinder transferability of the transparency initiative. As extant literature notes, when the ambiguity associated with a source's knowledge is high, the likelihood of the recipient repatriating and absorbing the knowledge is limited (Simonin 1999) and transfer is hampered (Winter 1987; Kogut and Zander 1992). It may be difficult to transfer ambiguous initiatives because it is not easy to untangle the specific activities constituting the original initiative. This ambiguity can be further amplified when home and host countries are institutionally distant (Kostova 1999).

However, ambiguity seemed to facilitate transfer of the transparency initiative. It freed recipients to interpret the initiative in a way that better fit local conditions, and so could be more easily implemented and effectively internalized in the subsidiaries. For example, transparency in relation to HR management in India was applied to different contexts, including "transparent selection process", "transparent performance management system", "transparent communications", and "transparent employee engagement initiatives" (Infosys Sustainability Report 2010/11). Transparency seemed more associated with compensation than communication in China. Interviewees repeatedly expressed the difficulties of talent management in China and provided examples of Infosys honoring promises of transparent compensation policies. National factors, such as the Chinese work culture, may help explain the difference between India and China. Chiu et al. (2001) find that the "cash mentality" remains prevalent among Chinese employees and argue that an individual bonus is a key component to attract and motivate employees in China. Honoring bonus promises was noted to exemplify implementation of transparency:

> *For example, even during the last financial crisis, we met whatever commitments Infosys had made. We still paid bonuses. It was very transparent and gave great feelings to employees and built trust. It takes time for people to understand how we work. [CEO of Infosys China]*

In the UK, transparency was transferred in a way that reflected the sales-based nature of the subsidiary. A manager facing clients on a daily basis related transparency to how things work internally and the process of dealing with customers:

> *Transparency is in our DNA from the beginning. See our initiative called under promise, over deliver. We lose deals because we are conservative – some other companies just give potential customers aggressive numbers although they know it would take more than what they are promising. But we don't say that. Our DNA is supported by the process. There are multiple checks. Sales people tend to make an over-commitment but they need approval from the delivery team. That way we cannot over-commit and we honor what we promise. [Senior consultant at Infosys UK]*

The intangibility of the initiative also seemed to provide flexibility in the modes of transfer. It was relatively easily applied in a variety of contexts and the mobility was high since no physical flows of material goods were necessary:

> *We transfer and articulate our value-based initiative in terms of management decrees. It cannot necessarily be handed out in products. We increase communication both physically and virtually, permeate; I do employee meetings. Kris (the company CEO) was here last week so it was transferred through the CEO speech.[Head of Europe at Infosys]*

Overall, the data suggest that transparency initiatives at Infosys were expressed in different forms such as processes and products and adapted to different contexts. Our findings suggest that the ambiguous nature of transparency facilitated implementation and internalization by allowing recipient subsidiaries to make their own interpretations.

4.2 Initiative II: Global Mentor – Failure in both

Global Mentor was an initiative intended to integrate new hires into the corporate culture in a way that helped them to fully appreciate the values of Infosys and the importance of diversity in the workplace. Infosys felt that integrating new hires and increasing diversity in the workplace were vital to firm success:

> *Employees are the core assets, and the most important stakeholders of Infosys. Thus, ensuring that they are satisfied, motivated and enthused is a key responsibility of the HR function. [CEO of Infosys]*

> *Creating a diverse workforce is the greatest challenge for us in a globalized world. [Chairman and chief mentor at Infosys]*

Based on extant literature, we expected Global Mentor to be successful. An initiative that focuses on internal stakeholders such as employees should be more easily transferrable than one involving external stakeholders, such as the successful transparency case just discussed. It is often more difficult to secure the cooperation of external stakeholders (Kostova and Zaheer 1999; Brannen 2004). External parties may be less trusting and so resist and challenge the efforts of the transferring party (Walton 1975; Szulanski 1996). Thus, if Infosys could succeed in transferring CR initiatives that required working with external parties, it seemed likely it would succeed in transferring CR initiatives that did not require this extra burden.

Contrary to expectations, Global Mentor failed in both countries. The initiative itself is rather concrete – match a new employee with an established employee – and so can be transferred easily from one country to another. However, as is clear from our analysis, institutionalization of a concrete initiative can prove much harder. Infosys' diversity unit, operating within the HR department, was mainly responsible for this initiative. Based at the HQ, the diversity unit systematically attempted to replicate the same initiative throughout all the subsidiaries. Yet the mentoring needs differed considerably between China and the UK:

> *In China, Global Mentor is not so active. I think it's because most employees are local; they already know where supermarkets are and don't need a buddy. But here in the UK, most employees are deputies so they need buddies. [HR manager at Infosys UK]*

There was constant communication between the HQ and subsidiaries, but this seemed to make the team overly centralized and allowed the HQ to dictate rather than respond to the unique needs of the subsidiaries. As the operational transfer literature has found, frequent within-team communication improves coordination of work but may result in useful subordinate knowledge being ignored (Hansen 1999).

Moreover, the employees' geographic spread also made implementation problematic, as mentoring is an initiative wherein face-to-face communication is important:

> *We have a challenge here. Most people are not here; they are on customers' sites; all really spread out. The India campus has 20,000+ employees in one place; implementation can be easily done, but here it requires planning. It's difficult to take forward. [HR European head]*

> *Communication is a challenge – for me, it was mind shift; everybody is spread out; based in all locations. [HR manager at Infosys UK]*

Overall, our findings indicate that though a concrete initiative like Global Mentor can be easily replicated, its concreteness makes it difficult to adapt to different contexts and, in this case, brought about failure in both subsidiaries. There was little appreciation of the value of the transferred initiative among recipients and thus use remained symbolic.

4.3 Initiative III: Academia Connect – Success in China but failure in the UK

Infosys initiated the Academia Connect (AC) initiative in 2004 as a means of enhancing the pool of talent with IT skills in India. The company considered the initiative to be of strategic importance because it served as a channel for recruitment. About 30% of new hires came through the AC initiative (Birkinshaw 2008). Some argue that AC was developed to showcase the Indian private sector's better approach to inclusive growth in comparison to the government's (Sood and Arora 2006). Indian businesses were strongly against extending the public-sector job reservation policy, such as the National Rural Employment Guarantee Program, to the private sector (Sundar 2000):

> *I believe that there is considerable social injustice in this country and that we have to help the disadvantaged people to overcome this. The solution is not reservations in education or in employment. The solution is to make the disadvantaged people more market-worthy and competitive' than they are today. [Chairman and Chief Mentor at Infosys]*

The cost of implementing AC was high in India. Infosys established an education center, which the company claimed to be the largest corporate education center in the world.[7] Located in Mysore, the total capacity was 14,000 employees, with an investment of Rs. 2055 crore (USD 461 million). The initiative also involved considerable time investment by skilled employees to develop various courses. It grew to include over 500 partnering colleges and more than 33,000 students in 2010 (Economic Times 2011).

A key to the initiative's success in India was collaboration with local stakeholders. Infosys considered partnerships with universities crucial to implementation. It often referred to the initiative as the "Industry-Academia Bonds." The partnerships were mainly with colleges. The Indian government played a marginal role in implementation. The governance of the initiative was decentralized, and a dedicated team within the education and research department, called the Academia Campus unit, was mainly responsible for it.

In 2006, Infosys sought to establish the AC initiative in China. Again, collaboration with local stakeholders proved a key to success, but with various government agencies being the key stakeholders. To fit China, Infosys sent 100 Chinese students to its training center in Mysore in 2006. The initiative was aligned with the needs of the Chinese government which had made development of the IT industry one of its priorities in the five year economic plan (Chen 2010). The Chinese government funded students' travelling expenses while Infosys China supported their accommodation and subsistence costs. The Indian HQ then accommodated the Chinese trainees for several months. Having foreigners working in the HQ helped to improve and promote diversity in the workplace. The mutually reinforcing relationship between the company and local stakeholders was explained by a government official as follows:

> *We can learn advanced experience from Indian IT firms through the project (Academia Connect) and we will provide full capital support and other policies. [Vice Director of the Shanghai IT commission]*

Infosys collaborated with many levels of governments in China, including the Ministry of Education. The Shanghai IT commission committed to fund the project with 4 million Yuan in 2008. With this financial support, Infosys expected to train 10,000 software developers for three years to meet the city's talent shortage and boost its software industry (*Shanghai Daily* 2008). Infosys signed an agreement with Nanhu District of China for setting up an education center of Infosys China at Jiaxing in 2010. Thus, AC appears firmly institutionalized in China.

Infosys' close collaboration with the Chinese government provided benefits beyond helping the AC initiative to succeed. According to *The Hindu* (2006),

7 http://www.infosys.com/newsroom/press-releases/Pages/global-education-center-II.aspx.

"In return for the favour, the Chinese government reportedly has exempted the Infosys China unit from the provisions of its labour law pertaining to trade unions." These types of benefits from mutual adaptation are consistent with arguments in the CR literature. Corporate citizenship activities can strengthen trust between a company and its local community and thereby help to integrate MNCs into their host communities (Gardberg and Fombrun 2006). Collaboration can enhance a company's reputation and open doors to new markets while achieving social objectives (Brugmann and Prahalad 2007). A government relations manager explained the benefits as:

> *The government plays a lot of roles and the media belongs to the government. Through the media, Infosys can promote its brand awareness in China, which makes it easier to do business in China if Infosys is in good standing with the government. We have several projects in education with the government. We begin to build trust and then talk about business. The government is willing to learn how to build the whole IT industry from Infosys. [Manager of Government Relations at Infosys China]*

As the technology transfer literature notes, mutual needs and mutually reinforcing collaboration foster success (Leonard-Barton and Sinha 1993). Research on social innovation further highlights that, because most social issues are complex, collaboration may extend across many groups. When a range of stakeholders are brought together, they can frame problems fully and accurately and work on solutions (Nambisan 2009).

The inability to effectively engage the firm in mutually reinforcing collaboration with stakeholders helps explain the failure of AC in the UK. Introduced in 2007 under its "global talent programme", Infosys UK selected British students from tertiary institutions and sent them to the global education center in India. The aims and efforts of AC in the UK appeared more focused on the firm and less on collaborative gains:

> *This is to supplement our operations as we scale up aggressively in the markets. We need to be able to get under the skin of our clients' business and we think this initiative will help us do that. [Head of Europe for Infosys]*

Although the perceived importance of AC was high, there were fewer objective signs of implementation, such as manuals, procedures, and the proportion of employees' time spent on it (cf. Kostova 1999), in evidence in the UK. Some members from the AC team were relocated from India to China, but not to the UK. The Indian staff from the AC unit used the same corporate training materials in China as the ones used at the HQ. At the UK office, however, the HR team implemented the AC initiative. The HR team, headed by a local, seemed to have a different and incomplete understanding of the initiative relative to the HQ:

> *I have no connection with Indians. 80–90% are Indians here. Half of the rest are of Indian background. They come from India with knowledge of these CSR things; we are not a big office and we need to focus on one small thing that we can do well. [HR head of Europe, Middle East and Africa (EMEA), Infosys]*

More generally, the HR team's view of the need to hire locals in the UK was different than what the HQ expected:

> *We don't recruit graduates because our business model doesn't facilitate having graduates in client sites. We need people with 3–4 years' experience to go to clients. Unless they are willing to go to Mysore and work there for several years, we are not going to hire British college graduates. [HR head EMEA, Infosys]*
>
> *We are recruiting local staff in the UK. UK is a growth area for us. [COO of Infosys, 2010]*
>
> *We are recruiting straight from college in Britain. [CEO of Infosys, quoted in Sunday Times, 2008]*

The fact that the initiative was handled by HR in the UK rather than the AC team seems to have influenced the outcome. Compared to the HR department, the AC unit at Infosys tended to interact with a variety of stakeholders such as local schools and NGOs to promote IT education in the community. As a result, the AC unit seemed to have built up the competency to effectively engage with stakeholders. In contrast, the primary responsibilities of the HR department were to incorporate the interests and needs of internal stakeholders, which involved little interaction with different stakeholder groups. This may have created a limited view of responsibilities and increased the chances of miscommunication and errors when executing strategic initiatives.

4.4 Initiative IV: Employee CSR Champions – Failure in China but success in the UK

Employee CSR Champions was an initiative designed to encourage employees to create and lead community volunteer initiatives. Employee volunteering was seen as a strategic tool to generate intangible assets for Infosys:

> *This policy will promote volunteering among employees and we believe that the value and benefits arising from it will have an impact on the community, the employees, and ultimately the company. [Infosys, 2008]*

Though the initiative entailed volunteering, Infosys incurred substantial costs to run it. For example, the company introduced a "Community Empathy Sabbatical" in 2008 to encourage employees to go on a one-year sabbatical to work for NGOs. During this period, employees were paid 50% of their salaries. Some claimed that this policy was a way to cut the workforce during global financial turmoil (Business Standard 2008), but it was clear that many Infosys employees actively participated in volunteer groups on a variety of topics. One of the volunteering activities, for example, drew more than 2300 employees across India.

The company recognized the high levels of enthusiasm for volunteering among employees, which was a part of the rationale for the introduction of the Community Empathy Sabbatical. One reporter observed:

> *It's a part of Narayana Murthy's desire to give back to the society, which is driven by the fact that many employees quit their jobs to pursue philanthropic activities. This would give such employees an option to pursue their hobby while still continuing with their jobs, even if they will be paid a small amount by the company. [Business Standard, 2008]*

Given such support, the employee volunteering initiative was transferred to both the UK and China. However, as indicated by a number of signs, the initiative failed in China. Volunteer activities such as a blood donation drive, orphanage visits, old-age home visits, and card sale fundraising events drew poor employee participation. The level of perceived benefits from these activities was low and often considered to be personal rather than for wider society. As a member explained:

> *I take part in the volunteering. It helps me feel good about myself and also I feel like I can improve my leadership skills. Though I'm just a software engineer, in terms of the eco club that I'm leading, I directly report to Ranga (the company CEO). I find the networking opportunity with my colleagues helpful. [Vice president of Employee CSR Champions at Infosys China]*

Transfer of the initiative to the UK office, by contrast, met with considerable success. One important distinction in employee volunteering between the UK and China was in the characteristics of the volunteers. In China, those who led employee volunteer efforts belonged to units that interacted with a limited number of stakeholders, while most of the volunteer initiative leaders at Infosys UK were from externally oriented business units such as marketing and sales. For the latter, their constant interaction with a variety of stakeholders might have been helpful for them to recognize what needed to be done to adapt volunteer initiatives to the local context. Social connections can be effective for acquiring and encoding timely, current, and soft information (Aldrich and Herker 1977; Edstrom and Galbraith 1977). They were well connected and so were in a better position to import the soft information needed to solve the adaptation problems they encountered. For example, an employee involved in the volunteer initiative, Cricket for Charity, learned that an NGO called Child Rights and You (CRY), with whom Infosys partners in India, was also present in the UK. Because he was well aware of the potential benefits from implementing the project and able to work readily with CRY to resolve any logistical challenges, it was fairly easy to promote the idea to his colleagues in the UK:

> *If all logistics are in place, employees are willing to participate in social initiatives. Otherwise it's difficult to figure out all the details on our own. [Associate Vice President, Infosys UK]*

5 Discussion

What factors influence success when CR initiatives are transferred across subsidiaries in an MNC? From an iterative process of observing similarities and differences within and across distinct cases (Pettigrew 1988; Eisenhardt 1989), the following three factors emerged: *ambiguity of the initiative*, *social competency of the business unit*, and *active involvement of local stakeholders*. We next discuss each of these factors.

5.1 Ambiguity of the initiative

Perversely, the more exact the blueprint, the less likely the CR initiative was to be well built in the subsidiary. Rather, the ambiguity of the initiative – that is, the degree to which its component activities and scope were subjectively defined and open to change – aided the transfer process. Concrete activities can be more easily replicated across settings and so can facilitate successful transfer of tangible operational practices, but as the case studies suggest, for CR initiatives ambiguity aids transfer success by providing leeway to adapt to variation in social perspectives and needs across countries.

Infosys' transparency initiative was carried out at its HQ through various principles, processes, and policies. This ambiguity as to precisely what constituted the transparency initiative allowed considerable leeway when transferring to China and the UK, where transparency was successfully institutionalized in myriad ways. In contrast, Global Mentor had specific, concrete activities associated with it. Though the remit of this initiative could have been approached rather broadly – for example, as a way to enhance workplace culture – the focus during the transfer process was instead on specific activities. As a result, even though the broader goals of the initiative were important in subsidiary countries, when the specific activities needed to achieve these goals differed across countries, failure often resulted.

Ambiguity fosters transfer success not only by allowing managers to pursue the broader goals of an initiative through activities that are more suited to local conditions, but also by enabling stakeholders to interpret these activities, and achievement of the broader goals, in ways more suited to them. Prior studies of operational practices have noted the role of cognitive elements, such as codifiability and communicability, in transfer success (Kogut and Zander 1995). Our findings for CR initiatives challenge the assumption that, because ambiguity makes it difficult to convey the meaning of the original initiative, transfer of ambiguous initiatives will be less efficient and effective. On the contrary, the more ambiguous a CR initiative, the greater latitude it provides in constructing meaning according to one's own needs, and so the more easily it can be applied from one context to another.

This may seem an odd finding, but if we look beyond the transfer literature, we find considerable support for the notion that ambiguity can be helpful, not harmful. The theory of strategic ambiguity notes that when managers and employees meet multiple and conflicting demands from internal and external stakeholders they may "respond with communicative strategies, which do not always minimize ambiguity, but are nonetheless effective" (Eisenberg 1984: p. 227). Edelman (1977) found that organizational goals can become less effective when stated concretely. Similarly, Leitch and Davenport (2002: p. 130) argue that "some degree of ambiguity in communications can enhance the organisation's ability to reach its goals." Even economists have shown that there is an optimal level of ambiguity in implementing monetary policies (Barro and Gordon 1983). The CR initiative transfer literature could benefit by borrowing more from this broader literature, and not solely from the operational practice transfer literature; else it may incorrectly advise managers to favor rigid transfer policies.

5.2 Social competency of the business unit

Success varies not only with the characteristics of what is being transferred, but also with the characteristics of who is doing the transferring. That is, the business unit responsible for managing transfer of the CR initiative is a key factor in the success of the transfer. Business units differ in their ability to gather and absorb knowledge from external sources (Tsai 2001) and, as a result, differ in their ability to successfully manage the transfer of CR initiatives. A business unit's interactions with different stakeholders can create an awareness of local stakeholder needs and an improved ability to fulfil these needs. In concert with prior studies in the broader transfer literature (e.g., Johanson and Vahlne 1977; Shenkar 2001), our findings indicate that such an awareness can help mitigate barriers associated with institutional distance and foster CR transfer success.

This ability to gather and integrate information in a way that enables the business unit to understand and fulfil the needs of stakeholders in host countries is what we consider to be a social competency. We adapt this conceptualization from Marcus and Anderson's (2006: p. 20) definition of a social competency as "a set of interdependent and related skills whose purpose is to benefit society." Marcus and Anderson argued that a firm's business competency differs from its social competency, and a firm may amply possess one but not the other. However, they conceptualized social competency as existing at the firm level. Our study concurs that social competency differs from business competency but advances Marcus and Anderson's (2006) perspective by suggesting that, at least within an MNC, social competency exists, and matters, below the firm level.

At Infosys, different functional departments managed the transfer of different CR initiatives and met with different levels of success. Academia Connect (AC), wherein the same initiative was transferred to different subsidiaries via different departments, highlights the relevance and importance of this difference in transfer success. The AC unit, from Indian HQ, managed the transfer of the AC initiative to China. This unit had dealt with more than 500 colleges in India and so was well accustomed to coordinating with many outside parties. The AC unit managed to establish a strong relationship with the Chinese government and the AC initiative was successfully transferred to China. In contrast, the HR unit sought to transfer the AC initiative to the UK. The HR unit appeared to be internally oriented and less accustomed to communicating with multiple stakeholders; the result was a failed transfer.

Instances of success in China but failure in the UK are surprising. Countries like China, with complex and highly uncertain institutions (Child 1994; Li et al. 2007), are seen as more difficult host countries than more stable countries like the UK. However, involving and learning from external stakeholders facilitates the transfer process and may moderate the effects of institutional distance. The successful transfer of AC to China was led by business units that were externally oriented and effective at learning from stakeholders.

A deeper look at the findings highlights the importance of relying on business units that not only look beyond the firm's boundaries, but that look broadly. Some business units at Infosys engaged more broadly than others; for example, fitting with prior research (Pil and Rothenberg 2003), the environmental management department interacted with a broader set of stakeholders than did the production department. The breadth of stakeholder engagement is of particular importance in the CR context because pressures for being a responsible business can come from a variety of stakeholders, such as customers and governments (Weaver et al. 1999). Those who interact with a variety of stakeholders may be more likely to recognize what needs to be changed in a local context:

> *My unit was helping customers with mobility solutions. Through our collaboration, we came to know the trends in green technology in the China context. It's not like I go and buy green technologies. They are not necessarily new technologies. They are already known to everyone in the industry. The differentiation comes from the fact that we have the capacity to bring all relevant technologies into solutions; we at Infosys have all the tools necessary for you to see what's happening so that a smarter and more eco-friendly decision can be made. [Head of Product Engineering at Infosys China]*

The Employee CSR Champions initiative further evidences the importance of social competence to CR transfer success. The marketing employees who were members of Employee CSR Champions at Infosys UK often worked together with their customers on various social causes, which might have helped lower search costs and improve implementation efficiency. Clearly this collaborative ability induced participation:

> *Our initiatives have been very successful. I think it's partly because we have strong partnerships with e-skills UK. We have the passion to do something but people don't want to bother to figure out logistics. So if some organizations like e-skills UK provide us with structures, for example, selecting schools and other logistics, we can easily mobilize our employees to provide our time and in-kind support. Besides work-related projects, doing something good with our customers is an opportunity for us to enhance our relations with customers. [Associate Vice President at Infosys UK]*

This stands in contrast to the employee volunteering group in China that was run by employees who belonged to internally oriented units. It was not successful and served as a get-together for employees without any substantial collaboration with external stakeholders. They took some leads from India (e.g., blood donation) and replicated them in China, but only a limited number of employees participated in the initiatives.

By holding the country constant, we can get a clearer sense of the importance of the social competency of the business unit in managing the transfer. In China, the AC unit was successful in implementing its initiative. But the unit managing the Employee CSR Champions initiative, as just discussed, did not adequately engage with local stakeholders and was unsuccessful.

5.3 Active involvement of local stakeholders

As specified thus far, a firm may foster success by favouring ambiguity when bounding CR initiatives and by drawing information from a broad network of external stakeholders. But stakeholders have a more comprehensive role to play than just that of providing information about local CR needs. The third factor we found to influence success is the active involvement of local stakeholders. Local stakeholders are actively involved when they provide tangible and intangible resources necessary for the transfer and institutionalization of a CR initiative. Thus, stakeholders play a key role not only in helping firms to understand local needs but also in helping to mutually create CR initiatives better adapted to meeting those needs.

Actively involving stakeholders in the transfer process can be awkward and risky. Developing social competency by making the effort to understand local stakeholder needs is one thing; opening up the firm's processes and initiatives to local stakeholder involvement and influence is quite another. At minimum, giving up sole control and bargaining with stakeholders can create managerial discomfort, but moreover, through its openness, a firm may reveal information that could later harm its competitive position (Zander and Kogut 1995). However, we found that these problems are more than offset by the gains from stakeholder collaboration. For example, as a result of working closely with the Chinese government to implement the AC initiative in China, Infosys was able to garner tax exemptions that helped lower the costs of its Chinese subsidiary operations. As this example evidences, the benefits may be substantial and broad, spreading across the subsidiary or firm as a whole, rather than just helping to successfully transfer a single CR initiative.

Stakeholder collaboration has been recognized as a main pillar (Swanson 1999) or even the essence (Pederson 2006) of CR. Our findings concur that rather than avoid the complications that substantive stakeholder engagement can bring, firms should incorporate both stakeholder input and action in the process of transferring CR initiatives.

6 Conclusion

As firms seek to expand their business operations across national boundaries, they may realize not only an ethical obligation but an economic imperative to expand their CR initiatives across national boundaries as well (Gardberg and Fombrun 2006). Yet extant literature has offered few insights about how MNCs can efficiently and effectively transfer home country CR initiatives to their subsidiaries. Our exploratory study of the transfer of CR initiatives from Infosys' headquarters in India to subsidiaries in China and the UK has moved the literature beyond its implicit assumption that CR initiatives can be successfully transferred in ways similar to other operational practices, and toward a more nuanced understanding of the factors that affect CR transfer success. This nuanced understanding suggests that some aspects of CR transfer are similar to those of operational practice transfer, but the "business as usual" assumption is far from complete. Successful transfer is associated not with concrete and clearly codified initiatives, but with ambiguous and loosely bounded initiatives; not with management by business units that have mastered internal organizational dynamics, but with those that focus on understanding external stakeholder needs; not with maintaining complete control over the transfer process, but with opening it up to substantive stakeholder involvement.

Of course, a single exploratory study of a single MNC, though it encompasses multiple CR transfers, subsidiaries and outcomes, is not ample to develop a full understanding of the determinants of success in the transfer of CR initiatives. We hope our study spurs further research on the management of CR initiatives in general, and especially within MNCs. MNCs' economic might now exceeds that of many nation states and their growing social and environmental impacts cannot be regulated through the laws and regulations of any single nation. Thus, it is important that we focus research efforts on developing a better understanding of how MNCs manage their CR initiatives.

There are several directions that future research could take in seeking to move beyond the insights of our study. Given the lack of literature on how to manage the transfer of CR initiatives within an MNC, we undertook an exploratory study and focused on a single firm, wherein we sought to validate seemingly sensible causalities across a range of within-firm examples. This single case design imposed an implicit control for variables at the firm level, further enhancing internal validity by eliminating confounding factors that could cloud the effects of other key variables on transferability. Given the complexity of CR transfer, with multiple conceptions of what constitutes an initiative, multiple units managing the transfer process, and the involvement of multiple stakeholders, examining multiple firms would have limited our ability to uncover these dynamics at work within the firm.

Yet given this design, our study could not account for firm-level heterogeneity in managing the transfer of CR initiatives. Factors specific to a firm, such as ownership type, international experience, and corporate culture, might influence not only how firms manage their CR initiatives, but also the results they achieve. It is possible that because of a firm's unique characteristics, its CR initiatives may be less prone to failure than was Infosys when faced with CR initiatives that are concrete, managed by internally focused units, and closed to active stakeholder involvement. Further, it is possible that firms not headquartered in developing countries, and so without the strengths that might come with such struggles (Khanna and Palepu 2001), might successfully manage CR transfer differently than did Infosys. For example, a firm headquartered in an advanced country might have more credibility with stakeholders in a developing country and so require less relationship building in order to legitimate initiatives. Then again, the possibility of backlash also exists when MNCs from developed countries impose initiatives on developing countries, and so it remains an open empirical question. Our study has indicated that the above factors are important, but future research studies should test their effects across different types of firms.

One of the key factors our study found to affect transfer success was the social competency of the business unit involved in the transfer process. Social competencies, as distinct from business competencies, are denoted as capabilities meant to achieve societal benefits (Marcus and Anderson 2006). Our examples show that business units differed with respect to their possession of business and social competencies. For example, the HR department seemed to possess business competencies but its social competencies appeared to be relatively weak. Our data revealed a possible causal link between social competencies and transfer success. However, there may be cases where business competencies (e.g., manufacturing capabilities) may lead to transfer success. For example, successfully implemented CR initiatives are often closely tied to the firm's business competencies, such as IT expertise. Future studies could gather more evidence to explore the extent to which different types of competencies affect transfer success.

This may also provide an opportunity to tie the CR literature more closely to theories of strategic management. Strategy scholars have proposed useful frameworks to categorize and measure capabilities that can be applied to the CR context. Examples include ordinary (operational and administrative) versus dynamic capabilities (Helfat and Winter 2011; Teece 2011). It may be interesting to investigate when ordinary and dynamic capabilities affect CR transfer success, and how much influence they exert, by studying the conditions under which their influence varies in the course of a transfer. Such studies can reveal why some firms may have difficulty creating value from capitalizing on their resources during a global expansion.

Future studies might also hone in on important distinctions across the types of CR initiatives that firms seek to transfer. In our exploratory study, we examined a broad swath of CR initiatives and discerned that, beyond those factors associated with how the firm manages the transfer process itself, ambiguity of the initiative was a key factor in transfer success. However, there may be other important distinctions across initiatives that may make some types of CR more easily transferrable than others. For example, CR initiatives aimed at resolving community problems may behave differently than CR initiatives aimed at resolving problems in the natural environment. Through empirical analysis, future research might uncover clusters of CR initiative types and hone in on the keys to successful transfer within those clusters.

Acknowledgements: Authorship is alphabetical, as authors contributed equally. Our sincere thanks to the guest editors, Aseem and Jenn, and to the anonymous referees, as well as Tim Hargrave and other participants at the Seattle workshop. Any errors we blame on jet lag.

References

Aldrich, H. and D. Herker. 1977. "Boundary spanning roles and organization structure." *Academy of Management Review* 2: 217–230.

Barnett, M. L. 2007. "Stakeholder influence capacity and the variability of financial returns to corporate social responsibility." *Academy of Management Review* 32: 794–816.

Barnett, M. L. and R. M. Salomon. 2012. "Does it pay to be *really good*? Addressing the shape of the relationship between social and financial performance." *Strategic Management Journal* 33: 1304–1320.

Barro, R. J. and D. B. Gordon. 1983. "Rules, discretion and reputation in a model of monetary policy." *Journal of Monetary Economics* 12: 101–122.

Bartlett, C. and S. Ghoshal. 1989. *Managing across borders: the transnational solution*. London: Random House Business Books.

Birkinshaw, J. 2008. "Infosys: computing the power of people." *Business Strategy Review* 19: 18–23.

Brannen, M. Y. 2004. "When Mickey loses face: recontextualization, semantic fit, and the semiotics of foreignness." *Academy of Management Review* 29: 593–616.

Brugmann, J. and C. Prahalad. 2007. "Co-creating business's new social compact." *Harvard Business Review* 85: 80–90.

Business Standard. 2008. Infosys exhorts employees to go on 1-yr sabbatical, work for NGOs.

Chen, L. 2010. "Business-IT alignment maturity of companies in China." *Information* and *Management* 47: 9–16.

Child, J. 1994. *Management in China during the age of reform*. Cambridge, U.K.: Cambridge University Press.

Chiu, R. K., V. W. Luk and T. L. P. Tang. 2001. "Hong Kong and China: the cash mentality revisited." *Compensation and Benefits Review* 33: 66–72.

Doh, J. and T. Guay. 2006. "Corporate social responsibility, public policy, and NGO activism in Europe and the United States: An institutional-stakeholder perspective." *Journal of Management Studies* 43: 47–73.

Economic Times. 2011. Infosys results: company to hire 45,000 people in FY 2012.

Edelman, M. 1977. *Political language: words that succeed and policies that fail*. New York: Academic Press.
Edstrom, A. and J. R. Galbraith. 1977. "Transfer of managers as a coordination and control strategy in multinational organisations." *Administrative Science Quarterly* 22: 248–263.
Eisenberg, E. M. 1984. "Ambiguity as strategy in organizational communication." *Communication Monographs* 51: 227–242.
Eisenhardt, K. M. 1989. "Building theories from case study research." *Academy of Management Review* 14: 532–550.
Freeman, E. R. 1984. *Strategic management: a stakeholder approach*. Boston: Pitman.
Friedman, M. 1970. "The social responsibility of business is to increase its profits." *The New York Times Magazine*, September 13.
Gardberg, N. A. and C. J. Fombrun. 2006. "Corporate citizenship: creating intangible assets across institutional environments." *Academy of Management Review* 31: 329–346.
Ghoshal, S. and C. A. Bartlett. 1988. "Creation, adoption and diffusion of innovations by subsidiaries of multinational corporations." *Journal of International Business Studies* 365–388.
Green, J. and N. Thorogood. 2004. *Qualitative methods for health research*. Sage, London.
Griffin, J. and A. Prakash. Forthcoming. "Corporate responsibility: initiatives and mechanisms." *Business* and *Society*.
Hansen, M. T. 1999. "The search-transfer problem: the role of weak ties in sharing knowledge across organization subunits." *Administrative Science Quarterly* 44: 82–111.
Helfat, C. E. and S. G. Winter. 2011. "Understanding dynamic and operational capabilities: strategy for the (n)ever-changing world." *Strategic Management Journal* 32(11): 1243–1250.
Hindu. 2006. Striking a balance. October 25, 2006.
Husted, B. W. 2001. Making or buying corporate social responsibility, unpublished paper. Available at: http://egade.sistema.itesm.mx/investigacion/documentos/documentos/3egade_husted.pdf.
Husted, B. W. and D. B. Allen. 2006. "Corporate social responsibility in the multinational enterprise: strategic and institutional approaches." *Journal of International Business Studies* 37: 838–849.
Hymer, S. H. 1976. *International operations of national firms: a study of direct foreign investment*. Cambridge, MA: MIT Press.
Infosys. 2010/11. Infosys Sustainability Report.
Jensen, M. C. and W. H. Meckling. 1976. "Theory of the firm: Managerial behavior, agency costs and ownership structure." *Journal of Financial Economics* 3: 305–360.
Johanson, J. and J. E. Vahlne. 1977. "The internationalization process of the firm – a model of knowledge development and foreign market commitment." *Journal of International Business Studies* 8: 23–32.
Jones, T. 1995. "Instrumental stakeholder theory: a synthesis of ethics and economics." *Academy of Management Review* 20: 92–117.
Khanna, T. and K. Palepu. 2001. "The future of business groups in emerging markets: long-run evidence from Chile." *Academy of Management Journal* 43(3): 268–285.
Khanna, T. and K. Palepu. 2004. "Globalization and convergence in corporate governance: evidence from Infosys and the Indian Software Industry." *Journal of International Business Studies* 35: 484–507.
Kogut, B. 1991. "Joint ventures and the option to expand and acquire." *Management Science* 37: 19–33.

Kogut, B. and H. Singh. 1988. "The effect of national culture on the choice of entry mode." *Journal of International Business Studies* 19: 411–432.

Kogut, B. and U. Zander. 1992. "Knowledge of the firm, combinative capabilities and the replication of technology." *Organization Science* 3: 383–397.

Kogut, B and U. Zander. 1995. "Knowledge, market failure and the multinational enterprise, a reply." *Journal of International Business Studies* 26: 417–426.

Kostova, T. 1997. "Country institutional profiles: concept and measurement." *Academy of Management Proceedings* 180–184.

Kostova, T. 1999. "Transnational transfer of strategic organizational initiatives: a contextual perspective." *Academy of Management Review* 24: 308–324.

Kostova, T. and S. Zaheer. 1999. "Organizational legitimacy under conditions of complexity: the case of the multinational enterprise." *Academy of Management Review* 24: 64–81.

Leitch, S. and S. Davenport. 2002. "Strategic ambiguity in communicating public sector change." *Journal of Communication Management* 7: 283–300.

Leonard-Barton, D. and D. K. Sinha. 1993. "Developer-user interaction and user satisfaction in internal technology transfer." *Academy of Management Journal* 36: 1125–1139.

Li, J., J. Yang and D. Yue. 2007. "Identity, community, and audience: how wholly owned foreign subsidiaries gain legitimacy in China." *Academy of Management Journal* 50: 175–190.

Lucea, R. 2007. Essays on global non-market strategy. MIT doctoral thesis.

Marcus, A. A. and M. H. Anderson. 2006. "A general dynamic capability: Does it propagate business and social competencies in the retail food industry?" *Journal of Management Studies* 43: 19–46.

Margolis, J. and J. Walsh. 2003. "Misery loves companies: rethinking social initiatives by business." *Administrative Science Quarterly* 48: 268–305.

Marquis, C., M. A. Glynn and G. F. Davis. 2007. "Community isomorphism and corporate social action." *Academy of Management Review* 32: 925–945.

Matten, D. and J. Moon. 2008. " "Implicit" and "explicit" CSR." *Academy of Management Review* 33: 404–424.

McWilliams, A. and D. Siegel. 2001. "Corporate social responsibility: a theory of the firm perspective." *Academy of Management Review* 26: 117–127.

Nambisan, S. 2009. "Platforms for collaboration." *Stanford Social Innovation Review* Summer, 44–49.

Orlitzky, M., F. L. Schmidt and S. L. Rynes. 2003. "Corporate social and financial performance: a meta-analysis." *Organization* Studies 24: 403–441.

Pederson, E. R. 2006. "Making corporate social responsibility (CSR) operable: how companies translate stakeholder dialogue into initiative." *Business and Society Review* 111: 137–163.

Pettigrew, A. 1988. Longitudinal field research on change: theory and initiative. Paper presented at the National Science Foundation Conference on Longitudinal Research Methods in Organizations, Austin, TX.

Pil, F. and S. Rothenberg. 2003. "Environmental performance as a driver of superior organizational performance." *Journal of Production and Operations Management* 12: 404–415.

Prahalad, C. K. and Y. L. Doz. 1987. *The multinational mission: Balancing local demandsand global vision.* New York, NY: The Free Press.

Rogers, E. 1980. *Diffusion of Innovations.* New York: Free Press.

Shenkar, O. 2001. "Cultural distance revisited: towards a more rigorous conceptualization and measurement of cultural differences." *Journal of International Business Studies* 32: 519–535.

Simonin, B. L. 1999. "Ambiguity and the process of knowledge transfer in strategic alliances." *Strategic Management Journal* 20: 595–623.

Sood, A. and B. Arora. 2006. The Political Economy of Corporate Responsibility in India', Technology, Business and Society (18), United Nations Research Institute for Social Development (UNRISD) Program Paper, Geneva.

Standard and Poor. 2004. Corporate governance score: Infosys.

Sundar, P. 2000. *Beyond Business: from merchant charity to corporate citizenship: Indian business philanthropy through the ages*. McGraw Hill.

Swanson, D. L. 1999. "Towards an integrative theory of business and society: a research strategy for corporate social performance." *Academy of Management Review* 24: 506–521.

Szulanski, G. 1996. "Exploring internal stickiness: impediments to the transfer of best-initiative within the firm." *Strategic Management Journal* 17: 27–43.

Teece, D. J. 2011. Ordinary (operational?) versus dynamic capabilities: core concepts and distinctions in the resources and capabilities frameworks. University of California, Berkeley, Haas School of Business working paper.

Tichy, N. M., A. R. McGill and L. St. Clair eds. 1997. *Corporate citizenship: Doing business in the public eye*. San Francisco: New Lexington Press.

Tsai, W. 2001. "Knowledge transfer in intraorganizational networks: effects of network position and absorptive capacity on business unit innovation and performance." *Academy of Management Journal* 44: 996–1004.

Visser, W. 2008. "Corporate social responsibility in developing countries." In: A. Crane, A. McWilliams, D. Matten, J. Moon and D. Siegel (eds.). *The Oxford Handbook of Corporate Social Responsibility*. Oxford: Oxford University Press, 473–479.

Walton, R. E. 1975. "The diffusion of new work structures: explaining why success didn't take." *Organizational Dynamics Winter* 3: 3–21.

Weaver, G. R., L. K. Trevino and P. L. Cochran. 1999. "Corporate ethics initiatives as control systems: managerial and institutional influences." *Academy of Management Journal* 42: 41–57.

Wicks, A. C., S. L. Berman and T. M. Jones. 1999. "Toward a conception of optimal trust: moral and strategic implications." *Academy of Management Review* 24: 99–116.

Winter, S. G. 1987. "Knowledge and competence as strategic assets." In: D. Teece (ed.). *The competitive challenge: strategies for industrial innovation and renewal*. Cambridge, MA: Ballinger, pp. 159–184.

Yin, R. K. 1994. *Case study research: design and methods* (2nd ed. Applied Social Research Methods Series no. 5) Thousand Oaks, CA: Sage Publications.

Zaheer, S. 1995. "Overcoming the liability of foreignness." *Academy of Management Journal* 38: 341–363.

Zander, U. and B. Kogut. 1995. "Knowledge and the speed of the transfer and imitation of organizational capabilities: an empirical test." *Organization Science* 6: 76–92.

Corporate Responsibility, Multinational Corporations, and Nation States

Dana Brown* and Jette Steen Knudsen

Managing corporate responsibility globally and locally: Lessons from a CR leader

Abstract: Corporate Responsibility (CR) is today an essential component of corporate global strategy. CR can bolster the institutional context for market expansion fill institutional voids or facilitate market entry as a component of non-market strategy. Yet, in fulfilling these functions, CR may need to be highly sensitive to local contexts. How can transnational firms organize CR so as to maximize efficiencies from globalization and to minimize the fragmentation of corporate organizational cultures? provide a framework for analyzing the way that corporations coordinate global and local functions. We build on this framework in a case study of Novo Nordisk and its approach to determining global and local CR policies and procedures with regard to its China and US subsidiaries. Our findings suggest that it is important for companies to define a common set of organizational norms. In addition, CR need to be sensitive to local institutional contexts, but learning from subsidiary experience is important and lends itself to standardization and replication of initiatives across market contexts.

***Corresponding author: Dana Brown,** EMLYON Business School, E-mail: brown@em-lyon.com
Jette Steen Knudsen: Copenhagen Business School

1 Introduction

IBM CEO Sam Palmisano (2006) argues in a thought provoking piece in *Foreign Affairs* that the successful firm of the 21st century will be configured as a transnational, taking advantage of opportunities to standardize and specialize in a world of open borders and the free flow of information. Bartlett and Ghoshal define a transnational firm as one that is comprised of dispersed and specialized units worldwide, differentiated by function but integrated to achieve strategic goals. A key feature of the transnational organizational form is the successful allocation of global and local functions. In contrast to the globalized or multi-domestic firm, the transnational adheres neither to a rigidly centralized or decentralized model, but is rather flexible and able to optimize the position of different functions. To do so, the firm must consider when and where standardization or localized adaptability is optimal, which depends both on internal capabilities and external constraints. A growing literature in Management Studies has begun to specify the conditions under which globalization or localization in firms' product market strategies is most productive. However, the organization of CR strategies on the global-local spectrum is only just being addressed in the Management literature.

CR is "the responsibility of enterprises for their impacts on society (European Commission 2011)." In many global corporations, CR has been and often continues to be an ancillary function. This is in spite of growing evidence that CR yields highest financial and social returns when it is integrated into central corporate strategy. Organizing CR as a component of integrated strategy is particularly important for the firm expanding overseas (Kostova and Zaheer 1999). Porter and Kramer (2006) explain that strategic CR can achieve "win-wins" for the firm and for society when it focused on fostering market conditions. In new markets, there is often a large need for infrastructure, institutions and human capital to facilitate business opportunities. Where this is the case, CR is vital for expansion.

In Porter and Kramer's model, the type of CR policy or intervention that a company pursues should be determined by the environment in which it is to be applied. The mix of needs and institutional constraints and opportunities will be different in every market space. This suggests that CR should be adapted to local conditions much like product markets strategies are adapted when there is strong regulatory variance and/or consumer preferences across markets. However, CR is often strongly influenced by institutional and/or cultural factors in a company's home market (Matten and Moon 2006). This leaves us with a puzzle. To what extent does CR have to be adaptable to local conditions? Are global CR policies possible and optimal?

This paper begins to address these questions by looking at how a company with a strong CR policy organizes the structure and particular implementation of CR in its subsidiaries. The goal of the paper is to use the case study to evaluate general propositions about the global versus local organization of CR in transnational corporations. In particular, we ask whether and how contextual factors in different national locations influence the balance between global and local management of CR issues. Under what conditions do similarities or differences between home and host country contexts require local or global CR policies and management structures? We begin with a review of findings to date concerning the influence of national contextual factors on CR practice. This review suggests that CR in general takes different forms depending on the cultural and formal institutional context in which it is implemented. We ask whether these factors play a role in determining the CR policies of a company operating in multiple contexts?

Our case study, Novo Nordisk is selected because it a crucial case in that it is noted a leader in CR, and is thus ideal for building propositions about a relatively new topic of inquiry. Moreover, within this "single" case, we perform a structured, focused analysis of its operations in two subsidiaries: US and China. These two cases are selected for the variance in institutional and cultural factors across these two market spaces, allowing us to evaluate whether and under what conditions localized strategies are required.

2 Literatures apart: CR as a strategic issue for transnational management

Academic work on corporate globalization strategies and work on CR have developed separately. Only recently, as CR is increasingly recognized as a central component of globalization in practice, has an interest developed in asking how these two literatures might speak to one another. Much of the literature on corporate globalization has focused on broad issues of the organization of the firm, and the management of human resources and knowledge. This literature has yielded insights on the drivers of localization and globalization in corporate product market and human resource strategies. However, less is known about what determines the organization and global management of CR. For its part, the literature on CR has overwhelmingly focused on its impact on economic value in the firm (Margolis and Walsh 2001). While most of the empirical work on CR has looked at its application in large, global firms, it has tended to treat CR policies holistically. Little attention is given to ways that CR policies might be differentiated to achieve various ends across locations. The impact of local context is considered in one branch of the literature on CR, which evaluates the nature and drivers of cross-national differences in CR practice [e.g., the work by Matten and Moon (2008); see also Campbell 2007; Jackson and Apostolakou 2010; Gond, Kang and Moon 2012]. We find this literature useful to build a conceptualization of potential drivers of local and global CR policies.

2.1 Local and global strategies in the transnational corporation

In their seminal work, Bartlett and Ghoshal (1989) define the features of a new type of organization suited to the realities of liberalization and technological developments that have characterized the late 20th and 21st century globalization. The authors define a "transnational" corporation and describe how its features differ from the organizational forms that have preceded it. Three alternative models are described. "Multinational" firms are largely decentralized, with national subsidiaries having power and independence to adapt to local conditions. Knowledge is generated at the local level and retained. In Palmisano's description, the multinational as an organizational form reflects the realities of the mid 20th century business environment, which was characterized by high degrees of national protectionism and self-sufficiency. Yet, the multinational is not just a relic of the past. In Ghemawat's (2007) terms, this type of organization reflects a need for a high degree of adaptation to local markets. Ghemawat argues that firms need more adaptation when operating in environments that are culturally or institutionally "distant" from the home market. Moreover, he contends that certain industries are more or less likely to require a strong adaptation strategy, depending on their degree of sensitivity to the cultural and institutional environment.

Two other organizational forms described by Bartlett and Ghoshal (1989) are the global and international firms. The global firm is focused on achieving global scale and centralizing activities accordingly. In this model, overseas subsidiaries merely implement top down strategies and knowledge is developed and retained at the center of the organization. In international firms, the core competences of the firm are centralized, while other aspects are decentralized. The role of subsidiaries is to adapt and leverage the parent company's competitive advantage. Knowledge is developed at the center. Ghemawat defines the practice of keeping activities at a central level as an "aggregation" strategy. Firms determine which functions to aggregate, and how much, on the basis of potential economics of scale and the degree to which products and processes fit other market spaces.

The transnational firm is different from all of the other forms. According to Bartlett and Ghoshal (1989: p. 70), its assets and capabilities are "dispersed, independent and specialized." Subsidiaries might perform a variety of functions and make a variety of contributions to the overall objectives of the firm. Knowledge is developed jointly and is shared easily across and between subsidiaries and the parent company. Palmisano explains the transnational as suited to the conditions of the 21st century period of globalization. Low barriers to the cross-border movement of products, services and capital combined with innovations in communication and technology create an environment where firms can truly optimize their global operations. Decisions about where to expand overseas and the function of overseas subsidiaries might be made on the basis of institutional factors that facilitate certain types of business activities (Khanna et al. 2005). Thus we see in the 21st century, for example, a concentration of "skill based" processes in India, capitalizing on liberal market policies and educational structures in that country. A transnational firm configures its "global" and "local" to maximize opportunities for aggregation but with recognition that in some cases local knowledge is critical.

According to Bartlett and Ghoshal, the risks to a transnational lie in over-emphasizing either localization or globalization. Too much focus on local factors risks losing opportunities for efficiency gains from global expansion, but too much globalization risks being too distant from the markets being served. The authors do not delineate the conditions under which localization or globalization is optimal, mainly because these conditions vary considerably across industries and markets. However, their examples in the white goods, technology and telecommunications industries, underscore three key sets of considerations. Firstly, the local-global balance is highly contingent on the industry environment. While the white goods industry requires a great deal of flexibility, the technology sector lends itself more to the development of standard processes and products that can be centrally produced. The second determinant is consumer preference and culture responses and sensitivities. In the white goods industry, local knowledge about how consumers wash their clothes, the instruments at their disposal, their perception of who in the household does the washing, are vital and require adaptation strategies. The third set of factors concerns institutions: laws and regulations that govern product features and marketing strategies, but also infrastructure such as technology, water supply, distribution networks, etc. But, according to the authors, these factors may not be equally important in different market spaces. To determine the appropriate balance between the local and the global, firms face myriad considerations, both about the external conditions of the market place and the internal capabilities of subsidiaries themselves.

The literature that has built on Bartlett and Ghoshal's model has focused mainly on two areas: on the conditions under which functions are organized locally or globally, and on the management of interdependence between units, particularly the management of knowledge (Nobel and Birkinshaw 1998). The conditions under which local adaptation is required are primarily institutional or cultural. Views on the significance of these factors differ between two schools of thought: one that emphasizes the standardization and convergence of business practices globally (Ohmae 1990) and another that sees businesses developing within particular contexts or national business systems (Sorge 1996; Whitley 1999, 2007). Advocates of convergence perceive an ongoing process whereby consumer tastes, working habits and business systems become more similar, or merge toward an Anglo-Saxon model. Scholars in the European institutionalist school argue that national institutions remain strong even in a global economy, and continue to structure business processes in human resources, operations and strategy, as well as organizational cultures. These scholars perceive influences of national institutions both from the home countries of transnational firms (Ferner and Quintanilla 1998; Harzing and Sorge 2003; Noorderhaven and Wil 2003). as well as from host countries (Carr 1994; Streeck 1996; Haipeter 2002; Woywode 2002).

Prahalad and Doz (1987) define the conditions under which local responsiveness in a company's product market strategy is required. Localization is required when customer needs and tastes, market structures and government requirements are particular to the market in question. Kostova and Roth (2002) argue that local adaptation is determined by regulations, when these regulations make it difficult to integrate worldwide principles with local practices. Ghemawat (2007) argues that significant cultural and administrative distances between markets will require local adaptation. Others have pointed to the importance of uncertainty as a factor that should give local actors more flexibility to interpret and adapt, particularly at the initial stages of market entry (Almond et al. 2005; Dickman et al. 2009). In a study of two Danish firms locating operations in China, Andersen (2008) also found that in a new and uncertain market context, adaptation and then unlearning and relearning in central headquarters were required.

2.2 CR in the transnational

CR as a business function is not considered by Bartlett and Ghoshal, but in the years since their seminal work, the significance of CR in business strategy and as a component of global expansion has been emphasized. Debates over the value and purpose of CR for the firm and society have been ongoing, yet a significant body of literature has concurred that when CR is integrated into corporate strategy, responsive to key stakeholders and effectively managed, it is potentially value adding (Arena 2007). CR is relevant for mitigating risk, enhancing reputation, recruiting top personnel and spurring innovation. For the global firm, CR may be even more important. Non-market factors such as public policies and regulations, political systems and cultural norms across countries can impact business success (Baron 1995, 2006; Khanna et al. 2005). Firms that evolve in one context may find that they are unable to operate similarly in another. CR can facilitate global expansion by helping companies to develop business contexts voids (Porter and Kramer 2006) or to fill "institutional voids". Sethi (2002) argues that, particularly in emerging markets, CR initiatives contribute to a company's social "license to operate". Research also shows that CR can create intangible assets that help companies reduce the liability of foreignness and gain competitive advantages over rivals (Gardberg and Fombrun 2006).

In practice, however, CR is not always considered strategically or instrumentally. CR is often the product of particular interests or values of leaders or key employees in an organization, who might only retrospectively rationalize a particularly initiative in terms of value to the firm (Reich 1998; Kapstein 2001; Devinney 2009; Karnani 2011). CR is also often reactive, reflecting the concerns of key stakeholders, particularly consumers and critical activists. CR policies are thus often found to be incoherent or even inconsistent. However, global firms face new pressures for more coherent and comprehensive CR. This is partly due to the emergence of global standards and evolving expectations. Moreover, the potential instrumental value of CR and the cost of managing CR across contexts motivates firms to take a more holistic approach. This is reflected in the emerging terminology and trends that we see today, emphasizing the strategic and the shared value of CR.

In order to provide an overview of the wide range of CR initiatives we turn to the UN's Global Reporting Initiative (GRI), which operationalizes CR activities along four dimensions: economic responsibility; environmental responsibility; social responsibility (labor practice, human rights and society) and product responsibility. These dimensions, summarized in the Table 1, provide a useful means of systemizing CR activities that we will employ in our case study.

Economic responsibility	Environmental responsibility	Social responsibility			Product responsibility
		Labor practices	Human rights	Society	
Economic performance	Materials	Employment	Investment and procurement	Community	Customer health and safety
Market presence	Energy	Labor relations	Non-discrimination	Corruption	Product and service labeling
Indirect economic impacts	Water	Health and safety	Freedom of association	Public policy	Marketing communications
	Biodiversity	Training and education	Child labor	Anti-competitive behavior	Customer privacy
	Emissions and waste	Diversity	Forced labor		
	Products and Services		Security practices		
	Transport		Indigenous rights		

Table 1 GRI summary of CR issues.

Particular CR policies in any company are likely to be motivated and structured by the context in which a firm operates. Porter and Kramer (2006) argue that the competitive context should direct CR toward strategic actions that will simultaneously improve social conditions and bolster the operational environment. They identify four examples of strategic activity. CR can be directed to strengthen key factor inputs such as labor supply through investment in education, health or housing. It can bolster demand through empowerment of consumers, for example by promoting microfinance or increasing knowledge about public or private health management. CR can improve the conditions of local suppliers and facilitate relationships with them. Finally, CR can contribute to the broader operating environment of the firm, by combating corruption, or aiming to improve institutions and regulations that facilitate business and economic development.

Porter and Kramer's instrumental approach to CR calls for highly specific actions in each context where the firm operates, dependent upon the existing infrastructure and institutional support for its activities. Their focus is on the formal institutional context and their assumption is that firms will deliberately orient their activities toward addressing institutional weaknesses.

Khanna et al. (2005) offer a similar perspective, showing how institutional contexts vary in the four BRIC (Brazil, Russia, India and China) emerging markets, requiring different corporate behavior and adaptation in each. These theories suggest that CR is adapted to local contexts, according to the nature of formal institutional and infrastructural conditions.

Other studies support this view, suggesting that CR is rooted in particular national or local contexts and varies across them, depending on structures of corporate governance (Aguilera et al. 2006), or social institutions and laws (Bondy et al. 2004). A number of recent cross-national studies building on the varieties of capitalism literature (Hall and Soskice 2001) have affirmed these findings. Matten and Moon (2008) see a distinction between European and American approaches to CR, rooted in existing labor market, welfare and corporate governance institutions. According to them, CR in liberal market economies such as the UK and America has emerged in response to weaker institutions governing areas that CR encompasses. Campbell (2007) argues that certain national institutional factors increase the likelihood of CR, including the presence of public and private regulations, institutionalized norms of corporate behavior, associative behavior among corporations and presence of nongovernmental organizations. Recently, Jackson and Apostolakou (2010) have argued that companies from liberal market economies exhibit a greater tendency to engage in CR than those from coordinated market economies.

Another set of arguments emphasizes the importance of national culture or value systems as determinants of CR focus and content. The business ethics literature has utilized Hofstede's cultural dimensions framework to distinguish between conceptualizations of CR across countries (Maignan 2001; Joyner and Payne 2002; Matten 2006; Kim and Kim 2009). This literature mainly shows that culture determines responses to particular ethical dilemmas, and is largely focused on the differences between more individualistic tendencies in America and more socialistic in Europe. Maignan and Ralston (2002) find that a tendency for US firms to focus on community and philanthropic activity is related to more positive perceptions of capitalism and the role of business in society, while European companies emphasize areas close to their productive activities such as environment and good employment. DeGeorge (2008) sees the differences as rooted in history as well as culture, arguing that "corporate social responsibilities, to the extent that they are not ethical or moral responsibilities, reflect the expectations and demands of the societies in which the corporations are found/or where they operate (DeGeorge 2008: p. 76)." Uniquely, DeGeorge explicitly extends this argument to firms' operations outside of their home markets, but admits that "how one teases out what a society expects of corporations beyond what is written into law is a source of conflicting views and claims (77)."

Studies on CR in multinational corporations have also emphasized the significance of cultural differences as a driver for complex and multi-level CR practices, and have attempted to operationalize cross-cultural distinctions. In a study of Mexican subsidiaries, Husted and Allen (2006) find that local CR is required under conditions when there is a disparity in the salience of particular issues, as indicated by attention given to those issues by key stakeholders. The specificity of CR, in their view, requires an approach that is different from product market strategy, although they find that isomorphism often dictates similarity in the global and local organization of CR and product market strategies. Logsdon and Wood (2005) argue that "some situations require a company to take an absolute and uniform policy, and other situations necessitate responsiveness and adaptability to local norms or contingencies (2005: p. 57)." They find that many companies express openness to local sensitivities, while promulgating universal and general values in their codes of conduct.

In contrast to these perspectives, others point to factors likely to create greater homogeneity in CR across contexts (Donaldson and Dunfee 1994, 1999; Ruggie 2003; Scherer and Palazzo 2007). Institutional challenges may be similar enough across some contexts to allow a firm to specialize on a particular type of "void". Statoil, for example, developed a capability to build local supplier capacity, out of necessity in its home market, but it has transferred this capability to subsidiaries in Eastern Europe and Central Asia, making it a focal point of its CR. In this sense, the capability becomes a part of corporate policy and may even influence locational decisions. Similarly IBM has developed successful gender diversity programs in its US headquarter, which have been emulated by its European subsidiaries (Knudsen 2011). Supporting this view is the notion that universal norms or values can be incorporated into CR policies, and spread by those policies. Initiatives such as the GRI and the UN Global Compact reflect this view, and underplay the extent to which particularistic CR policies are required.

In sum, there remains some debate about the extent to which CR needs to be adapted to particular locations. Some institutional theories theories suggest that different institutional contexts may require different CR activities or methods of intervention. By methods of intervention, we refer to practices such as investing in local education, building local supplier capacity, supplying health care infrastructure, etc. The GRI chart (Table 1) shown above provides categories of activities, which a firm may emphasize more or less in any given location. What is notable is that while the mix of CR activities in any given locale may vary, there is a limited pool of activities overall. This means that even if CR policy in a location is tailored to meet certain needs, some learning about how to perform CR activities can occur across locations. This was illustrated in the example of Statoil: the need to build local capacity may vary more or less across locations, yet the organization has learned how to do this well and has thus developed CR policies that emphasize this capacity. In this case, Statoil might even treat this capability as a core capability that drives location decisions.

Other theories in the literature call attention to normative factors that could influence CR policies. If there is a high degree of variance between the norms and preferences of key stakeholders across locations, specifically between HQ and subsidiaries, it may be necessary to adapt CR and manage it locally. On the other hand, companies can take the approach of focusing on "hyper norms" as a basis for global CR policy and take a centralized management approach. CR is not just about applying tools, but also concerns the implementation of values through standards, codes of conduct or codes of practice. Firms need to determine whether the areas of CR in which they are engaged are able to be managed with centralized standards, or whether local adaptation is required. If the latter, then local knowledge of business practices, norms, sensitivities and methods of communication might be necessary and management practices adopted accordingly.

3 Propositions

Our central concern is to better understand whether contextual factors in different national locations influence the balance between global and local management of CR issues in transnational corporations. We derive five propositions from the existing literature:

1. *Localized CR policies may be required when there are differences between the formal institutional contexts in the home and host markets.*

At the most basic level, particular CR policies would be required in any context if they were legally mandates (such as mandated reporting policies in Denmark and the UK). Moreover, the literature suggests that institutional voids are an important potential driver of CR policies (Jackson and Apostolakou 2010; Valente and Crane 2010; Scherer and Palazzo 2011). If a company uses CR strategically to redress institutional voids in new markets, and if these voids vary across those markets, particular CR policies will be required. Likewise, we can consider the case where certain standards or practices in the home office are not legally required in subsidiary locations, but are felt to be ethically or strategically important. For example, a company based in a country with strong laws on gender diversity might incorporate voluntary gender diversity policies in subsidiaries where laws are weaker.

2. *Localized CR policies may be required where there are differences in normative contexts in the home and host markets and those differences are reflected in unique demands of stakeholders.*

The literature suggests that norms and values in a national business context can shape CR policies when these values are embraced by key and influential stakeholders. Therefore if there are differences in norms between home and host countries on relevant issues, it may be necessary for a company to adapt. Gender diversity, for example, might be more difficult to implement at certain levels in some contexts more than others (Dobbin 2009; Knudsen 2011).

3. *Centralized CR policies are more likely if "hypernorms" can be identified or where standards or norms can be expressed in a general way.*

According the literature, global firms can be a conduit for universal norms. (Donaldson and Dunfee 1999). Global firms can find support and legitimacy for their CR policies from new institutions such as the GRI for perpetuating certain standards and practices as a component of their CR. Moreover, it is assumed that the more that CR polices are stated in terms of general norms, the easier they will be to manage globally.

4. *Centralized CR policies are likely when the firm considers CR capabilities in determining its locational choices.*

If a firm considers its capabilities in the area of CR when making locational decisions, it is likely that the CR policies in the home and host markets will be similar, and thus able to be managed centrally.

5. *Centralized CR policies are more likely if the firm chooses to open subsidiaries where key stakeholders have similar normative frameworks and expectations.*

It will be easier to manage CR centrally if and when influential stakeholders in the home and host markets have similar norms and expectations by which they will evaluate CR policies. If expectations of the social and environmental responsibilities of the firm are similar, it is possible to develop responsive CR policies without having to pursue particular stakeholder engagements (Jamali 2010).

4 Methodology

To evaluate the determinants of local versus global organization of CR, we focus on how this is done within a single company, with regard to two of its subsidiaries. A single case study is an optimal research design when an in-depth understanding and explanation is required (Pettigrew 1990; Yin 1994). At this time, knowledge about the determinants of CR organization in transnational firms is limited, and the field remains divided as to whether CR must necessarily comprise standard or local features. This literature has focused largely on defining CR and understanding what it entails and why firms have CR at all. In many ways, CR as an area of strategic activity is new, thus the literature on how to manage CR in large, transnational organizations is at incipient phase. Moreover, CR is a complex field in that it comprises a wide range of activities, requires multiple capacities, and involves interactions with diverse stakeholders. In order to develop general theories and prescriptions on the optimal management of CR, a bottom up research approach is therefore required.

The company we study is Novo Nordisk, a Danish pharmaceutical firm and known leader in the area of social responsibility. We choose this company precisely because its CR functions are highly developed (Novo Nordisk was for example in the top of the Dow Jones Sustainability Index in 2010) and because Novo Nordisk is rapidly growing its international presence. For example, sales in international operations increased by 26% in Danish kroner and by 17% in local currencies in 2010. The main contributor to growth was sales of modern insulin, primarily in China (Novo Nordisk 2010). Novo Nordisk has experience in developing and implementing CR across its subsidiaries, and has integrated past learning into current processes.

Novo Nordisk has pioneered the Triple Bottom Line approach: balancing financial, social and environmental considerations in a responsible way. Novo Nordisk argues that it sees increasing evidence of a clear correlation of actions as a responsible business and its performance measures as operational profits and return on invested capital. Recently Novo Nordisk has started to assess benefits to society of this approach. Together with experts and input from stakeholders Novo Nordisk has developed a methodology that enables the company to value the contribution of the Triple Bottom Line Principle to Society. Novo Nordisk calls this initiative a Blueprint for Change Program and has conducted Triple Bottom Line reviews looking at its climate strategy and business approach in China. While the company does not have a deliberate delineation of CR functions, it is able to share information about its practices and how they are determined. The authors of this paper have an ongoing and constructive relationship with Novo Nordisk, making it possible to gather data required through contacts and familiarity with company documents.

Novo Nordisk is present in 74 countries (Novo Nordisk 2010). We have selected to study its CR in the two largest of these subsidiaries: China and the US. This selection gives us variation on the key variables in our propositions. We have argued that differences in the cultural and institutional context between the host company and its subsidiaries might shape the allocation of management functions in CR. The literature on CR cited above has made strong claims about cultural and institutional factors driving very different CR practices in the US and European countries. Differences with China are not analyzed as thoroughly in the literature yet, but variations between Asiatic and Western cultures are recognized in the literature (http://www.geert-hofstede.com).[1] Moreover, preliminary in the business systems and varieties of capitalism literature suggests that the Chinese institutional context is perhaps different from either the coordinated market economy (close to Denmark's model) or the liberal market economy, although closer to the latter (Redding and Witte 2009). A comparison of practices in these

1 Hofstede's cultural variables are widely considered as a solid indicator of variation between countries. The results of Hofstede's research are reported on his website: http://www.geert-hofstede.com/. These results show large differences between China and Denmark on every scale. For example, while China scores 80 on power distance, Denmark scores 18 (world average is 55), indicating that in Denmark, there is a much higher expectation of an equal distribution of power. On the individuality measure, Denmark scores 74 while China scores 20 (world average is 43), indicating that China is a far more collectivist society. The US scores higher than Denmark on power distance (40) and on individuality (91), but the greatest difference between the two countries concerns masculinity, the degree to which values such as assertiveness are dominant in society, with the US scoring a 62 and Denmark a 16.

subsidiaries allows us to look at areas where Novo Nordisk has differentiated its CR policies and to understand its logic for doing so. It permits a comparison of the strategies that the company has employed in these two different contexts, and the challenges it has confronted.

We begin with a general overview of Novo Nordisk's approach to CR and how executives in the organization conceptualize the relationship between headquarters and its subsidiaries in China and the US. This overview is based on a thorough review of available public documents describing the company's CR initiatives, and interviews with seven executives operating in the Danish headquarters as well as interviews with executives in Novo Nordisk's commercial office in Beijing. We use this data to delineate the primary CR functions undertaken by Novo Nordisk, utilizing the general frame of activity types identified by the GRI. Where the requisite information is available, we evaluate how each activity is organized in terms of more or less globalized or localized, with respect to the subsidiaries in China and the US. Where we find more localized or specific CR initiatives, we ask our contacts in Novo Nordisk to explain and validate why this has been the case.

In our propositions above, we suggest several potential explanations for how transnational corporations organize the global-local balance of CR activities. During our interviews with Novo Nordisk we have focused on better understanding when and how aspects of the normative and formal institutional context matter for determining the organization of CR. What we report in our findings are mostly narrative accounts about the conditions under which localization of CR has occurred and where more globalization has been successful. This allows us allows us to reflect on our propositions, including aspects that be missing from them.

5 Novo Nordisk: An overview

Novo Nordisk A/S was founded in 1922, focusing on the treatment of diabetes. Today Novo Nordisk is a world leader in diabetes care and has over 30,000 employees in 74 countries. It has production in seven countries and sells its products in 180 countries (Novo Nordisk 2010). Business is centered on two main areas: diabetes care and biopharmaceuticals. Diabetes care constitutes 70% of the company's turnover. Novo Nordisk occupies a leading position within this market with a current world market share of 51% measured in volume. Between 2009 and 2010, the sale of diabetes care products increased by 22% (in Danish kroner). In this period, the stock price of Novo Nordisk increased dramatically, indicative of the company's ability to produce insulin in large batches cheaply, relative to its competitor. The biopharmaceutical area of the business includes homeostasis management, growth disorders and hormone replacement therapy. Novo Nordisk also occupies a leading position in these markets. In 2010, the sale of biopharmaceuticals increased by 11% (in Danish kroner).

Headquarters of Novo Nordisk in relation to its diabetes products are based near Copenhagen, Denmark.[2] The company is managed by executive board of five directors, including the CEO and the heads of four organizational areas: Research and Development, Finance, Operations and Corporate Stakeholder Relations. All five member of the executive management team are Danes. A Supervisory Board is comprised of ten members, seven elected by shareholders and three employee representatives. As of March 2011, the Chairman and the majority of the board are Danes. The company is financially controlled by the Novo Nordisk Foundation, which holds the majority of voting rights through its holding company, Novo A/S (Morsing and Oswald 2006). The Novo Nordisk Foundation is a non-profit, commercial institution (http://www.novonordiskfonden.dk/en/index.asp), whose formal purpose is to provide a stable basis for its companies' operations and to make contributions to scientific, humanitarian and social progress (http://www.novonordisk.com). Novo A/S is an unlisted Danish public limited liability company, owned by the Novo Nordisk Foundation and established to manage the Foundation's funds and to invest actively in other companies.

Foundation ownership combined with dual class shares that protects Novo Nordisk from the threat of hostile takeovers have often been cited as a key reason for making responsible social and environmental practices have been integral to Novo Nordisk's business since its founding (presentation by then Chairman of the Board and former CEO Mads Øvlisen to the European Parliament on 28 January, 2003). The company has often been recognized as a CR leader. It has been listed in the Dow Jones Sustainability Index since the founding of the index in 1999, was classified as the healthcare "supersector" leader in 2007 and 2008 and received a gold star ranking for several years, including 2010 (http://www.sustainabilityindex.com). In addition, it lists on its website seven major awards in 2010 for responsible business practices (http://www.novonordisk.com/sustainability/Sustainability-approach/awards-and-recognition.asp). As we discussed above Novo Nordisk uses Triple Bottom Line reporting and has developed sophisticated techniques for stakeholder engagement. It has reported to the GRI since 2002 and to the Global Compact since 2001.

Novo Nordisk entered China in 1994 with a company now named Novo Nordisk (China) Pharmaceuticals Company, Ltd. It has since become the leader

2 In 2005, Novo Nordisk moved sales and marketing of biopharmaceuticals to Switzerland, although sales and marketing of diabetes products remained in Denmark.

in sales of diabetes products in China (63% of the insulin market), and has completely replicated all major business functions in China: R&D, production, sales and distribution. Chinese headquarters and R&D is based in Beijing, a production facility is located in Tianjin, and there are six regional offices (http://www.novonordisk.com/careers/working_at_novo_nordisk/novo_nordisk_geographical_sites/china_uk.asp_). In 2010, Novo Nordisk had 3511 employees in China, representing 7% of the company's total turnover (Novo Nordisk 2010: p. 27).

Novo Nordisk opened an enzyme production plant in North Carolina in the US in 1979. It formed a joint research and development venture with Squibb Pharmaceuticals in the US in 1982, but replaced this with a fully owned subsidiary in the US in 1989. It now operates Novo Nordisk Pharmaceuticals, Inc. in Clayton, North Carolina and Novo Nordisk North America, Inc., headquartered in Princeton, New Jersey. In total, the company has 4457 employees in North America, and the market represents 39% of the company's total sales. Novo Nordisk controls 42% of the total insulin volume sale market in North America (Novo Nordisk 2010: p. 26).

Both the China and US markets are considered to be of very high strategic importance. The company's *China Blueprint*, an internal research report, estimates that in 2010, about 40 million people in China had type 2 diabetes, and predicts that this number will reach 80 million by 2025 (Interview with OK). Demand is expected to grow in the US as well. Company executives refer to a recent study published in the *Journal of the American Medical Association* (*1 January 2003*) which reported that obesity climbed from 19.8% of the American population to 20.9% in just a one year period, from 2000 to 2001, and patients diagnosed with diabetes increased simultaneously from 7.3% to 7.9%. These continued trends indicate future growth of the US market.

6 CR at Novo Nordisk

Company documents and executives at Novo Nordisk repeat the idea that CR is not an isolated function at the company, but is an integrated component of its overall strategic management. "Novo does not have a CR manager sitting alone in a corner (Interview with OK)." Organizationally, Novo Nordisk manages CR to a great extent through its Corporate Stakeholder Relations division, but not exclusively. In our interviews and discussion with Novo Nordisk executives, it was also clear that CR played a vital role in its market entry and marketing strategies in every country where it operates. This was especially the case with regard to CR interventions focused on access to health and to providing health information. The primary mechanism for managing CR in the company, however, is through the use of a set of guidelines that define the values and overall organizational culture of the company, now known as the "Novo Nordisk Way."[3] The Novo Nordisk Way, which is applied throughout all parts of the company, is a key part of the creation of a strong organizational culture (Morsing and Oswald 2006).

The Novo Nordisk Way was introduced specifically to balance out conflicting interests between corporate control in the organization and decentralized decision-making (Morsing and Oswald 2006). It was primarily introduced as a performance management system, but the set of guidelines is also an important tool for putting management's commitment to sustainable business practices into operation. Novo Nordisk refers to it as a "values-based governance framework" (http://www.novonordisk.com/sustainability/Governance/NN-way-of-management.asp). There are several components of the Novo Nordisk Way. The "vision statement" consists of the primary goals for the company and describes its objective to balance commercial interests and responsible business practice. The charter provides a more detailed list of company characteristics and key values, and also lays out a list of 11 fundamentals or rules, which form a key part of managing the value system overall. The fundamentals are applied throughout all operational and national divisions of Novo Nordisk through the use of "facilitators". There are 15 facilitators who are drawn from senior management at the company. Their task is to evaluate (audit) and assist business units in implementing the fundamentals. In addition, the Novo Nordisk Way is managed through the use of sustainability reporting and the balanced scorecard.

One manager described to us some aspects of what an "audit" on the Novo Nordisk Way fundamentals would entail for his division. The manager has a number of specific targets in his employment contract including to enhance the social glue or positive atmosphere in the unit. Facilitators might check that his employees have clear targets in their contracts, that these are met, and that there are follow-ups. They might also check that this manager is well versed in the Novo Nordisk Way. During an interview with the VP of Human Resources, he also emphasized the importance of the process of auditing. While he acknowledged that in a large and global organization, one might at times only be able to achieve a "helicopter view" of what is happening in any one unit, part of the purpose is to inspire individuals to work well and live up to Novo's values. Our interviewees in China confirmed that facilitation is a key element of employee assessment and a poor review can lead to dismissal.

3 Formerly, the Novo Nordisk Way of Management.

While the objective of the Novo Nordisk Way is clearly to generate and instill a set of universal guidelines for the entirety of the company's global operations, creating values at this level of generality is difficult. In 2010, the senior management undertook a substantive re-evaluation of the fundamentals, partially in response to two challenges that had emerged. Firstly, the fundamentals were perceived to be mainly applicable to management, rather than to employees as a whole. Secondly, there were critiques that the values inherent in the "Way" were particularly Danish referencing the values and ideals of the founders of the company and therefore hard to interpret and understand for some employees outside of Denmark.

The Fundamentals (until 2011)

1. Each unit must share and use better practices.
2. Each unit must have a clear definition of where accountabilities and decision powers reside.
3. Each unit must have an action plan to ensure improvement of its business performance and working climate.
4. Every team and employee must have updated business and competency targets and receive timely feedback on performance against these targets.
5. Each unit must have an action plan to ensure the development of teams and individuals based on business requirements and employee input.
6. Every manager must establish and maintain procedures in the unit for living up to relevant laws, regulations, and group commitments.
7. Each unit and every employee must know how they create value for their customers.
8. Every manager requiring reporting from others must explain the actual use of the reports and the added value.
9. Every manager must continuously make it easier for the employees to liberate energy forcustomer related issues.
10. Every manager and unit must actively support cross-unit projects and working relationships of relevance to the business.
11. Everyone must continuously improve the quality of their work.*

The revised Novo Nordisk Way was announced in February 2011. The main change was to the list of "essentials" (previously called "fundamentals"). A clear shift was made from using prescriptive and value specific objectives, to more general and flexible guidelines. We note the two sets of guidelines in Box 1. The new set of essentials appears to move Novo Nordisk closer to the objective of transnational management advocated by Bartlett and Ghoshal, who recommend the creation of an integrated organizational culture that can counteract centrifugal tendencies by creating a shared vision (Bartlett and Ghoshal 1989: p. 70). There is a distinction here in the level of management and control from the center between what might be called "centralized" or "globalized" control over processes, and that which Novo Nordisk seems to be attempting to achieve. Bartlett and Ghoshal envision the existence of dispersed and independent managers working in different locations and specializations, but adhering to general standard practices and continuously engaging in the refinement of those practices (Dickman et al. 2009). Our interviewees suggested that the revisions to the Novo Nordisk Way were mainly decided by a central management team in Denmark, but with some input from other units.

The Essentials (introduced in 2011)

- We create value by having a patient-centered business approach.
- We set ambitious goals and strive for excellence.
- We are accountable for our financial, environmental and social performance.
- We provide innovation to the benefit of our stakeholders.
- We build and maintain good relations with our key stakeholders.
- We treat everyone with respect.
- We focus on personal performance and development.
- We have a healthy and engaging working environment.
- We optimise the way we work and strive for simplicity.
- We never compromizse on quality and business ethics.

In practice, the Novo Nordisk way creates an opportunity for what one member of the Senior Management team described as "values based management" at global level. However this also leaves room for local adaptation. "As I see it, change starts with where the individual subsidiaries are and not from where we want them to be (Interveiw with OKN)."

7 Managing CR globally and locally

The Novo Nordisk Way provides a framework for CR management throughout the company. In many ways, Novo Nordisk presents itself as a Danish, and highly centralized company, with the "Way" being a strong representation of this. However, as the company expands out of Denmark (currently 44% of employees are outside of Denmark and this number has doubled since 2000 and is expected to increase), it is necessary to also present itself as more of a global organization. There is a sense of a move toward presentation as a global firm in Novo Nordisk's publicity. For example, the 2010 Annual Report uses images of what appear to be a “middle class” Chinese father and son for its front and back cover. In previous years (between 2005 and 2010), the main images have been of Danes.[4] With regard to its organization, most of the global subsidiaries are focused on sales and marketing, with R&D and product development done in five locations. In the US and Chinese subsidiaries, as outlined above, most of the primary functions are replicated in the subsidiary market. Therefore, in terms of product market strategy, we can say that there likely is a mixed organizational approach, between centralized strategic development and organizational culture, and functional replication, such as is characteristic of a “multinational” in Bartlett and Ghoshal’s conceptualization.

Novo Nordisk reports on social performance utilizing the Global Reporting Initiative (GRI). Its submission to GRI points to statistics, position statements and some program examples. Mostly the reporting is done on a global level, without reference to particular nationally or regionally focused variations. We find that on indicators of the environment, and to a less extent on product quality, the reporting is highly standardized and there is little indication of different policies across locations. With regard to the environment, the standards and measurements are clear in the GRI framework. On quality issues, Novo Nordisk refers to ISO standards and global and internal auditing frameworks, although there is also reference to national regulations. With regard to labor practices, company reporting heavily refers to the Novo Nordisk Way, and to corporate policies on diversity, training, wages and benefits. The company uses web based employee surveys and reports high levels of engagement and knowledge of company policies. On labor policies, there is also reference to national regulations and adaptation to practices and standards on a national level.

Overall, it is in the areas of social and socioeconomic programs where Novo Nordisk appears to have the largest needs for adaptation. Initiatives in these areas are also the core of strategic CR within the company. A key area of focus at Novo Nordisk (as well as in most pharmaceutical companies) is “Access to Health”. CR in this area involves a wide range of activities including medicine pricing policies, investments in delivery systems, health education, and advice and involvement in health system structure. Since this a diverse and central area for the company, it is worthy of focus here.

In its Access to Health initiatives, Novo Nordisk engages on a wide level. In new market spaces, the company will develop an assessment of the health situation related to diabetes in the country, identify key stakeholders and devise intervention strategies. Much of this work is handled in the Global Affairs

---

4 All Annual Reports can be found at the Download Center on the company’s main website: http://www.novonordisk.com/about_us/download-center/dowloadcenter.asp?Year=2005.

Department in Denmark, but this division does not work in the US. In our interview with the VP of Global Affairs, the independence of the US division was emphasized. China, however, came under the remit of the Global Affairs department in the company headquarter. The Global Affairs department oversaw a large-scale study of attitudes, practices and policies related to diabetes in China. Over the years, as Novo Nordisk has intensified its efforts, significant resources have been spent on educating doctors and patients, and engaging with government officials on health care strategy in China. These are practices that are common in other markets as well, but specific aspects of culture and institutions in each of them require tailored organizational approach. However, in 2010 Novo Nordisk China was granted status as a region and hence it gained more independence from the headquarter. The head of Novo Nordisk China Ron Christie was "upgraded" from a Vice President to a General Manager for example.

Novo Nordisk's publication "The Blueprint for Change" contains a section on "Changing Diabetes in China", which describes some of the challenges it has faced.

> *In 1994, China had limited services and institutions to provide the necessary physician and patient education. To fill this gap, we invested in community programs focusing on diabetes prevention. Later, we invested in a National Diabetes Program, including several public-private initiatives developed and executed in partnership with the World Diabetes Foundation and the Chinese Ministry of Health. The largest project involving the World Diabetes Foundation and the Chinese government was initiated in 2002 with a focus on developing diabetes guidelines, training and health system integration.*

These practices in China appear to be a clear example of the type of "strategic CR" advocated by Porter and Kramer, aimed at filing "institutional voids (gaps)" in order achieve both social outcomes and to lay the ground for successful economic activity. One of our interviewees further pointed out that even up to the mid 1990s, people with diabetes in China were not allowed to go to university or to hold a public sector job. Novo addressed this challenge by engaging "ambassadors" who were Chinese people with diabetes who were undergoing treatment, to publicly discuss the disease and how they were able to live "normal" lives in spite of the illness. This suggests a significant cultural challenge as well.

As mentioned above, the Chinese market is highly important for Novo Nordisk. Diabetes cases are rapidly rising, in line with the pace of economic development and urbanization in China. In one of its partnership initiatives, Novo Nordisk, the World Diabetes Foundation (WDF) and the Chinese Ministry of Health have jointly established a national, 5-year diabetes program in China. Its purpose is to prevent (via information on diet and exercise), diagnose and treat diabetes, thereby limiting the burden of the disease on the Chinese society. The program will cover approximately 500 million people of which 20 million have diabetes. Systematic diabetes training for a total of 50,000 doctors and nurses will take place in the form of seminars and hands-on training.

Based on what we have been able to ascertain, Novo Nordisk's CR activities in China have until very recently mostly been managed by headquarters, although they engage local actors in stakeholder meetings on some occasions. The approach to China has called for highly specific policies, however, and CR in this sense has been central to developing business in this country. There has been room to learn from practices applied to other markets where similar "gaps" are apparent, but Novo Nordisk invests in a great deal of ground level work that suggests a high need to understand and adapt interventions to local cultural norms and institutions.

The US subsidiary appears to be managed differently. For the US, there is a separate US Code of Business Conduct, which references the Novo Nordisk Way but covers legal and normative areas specific to the US such as modes of interaction with government. This is largely due to differences between institutional/legal context in the US and Denmark than to the differences in culture, which senior management at Novo Nordisk suggested may be less noticeable than between Denmark and China. This is encapsulated in the following answer to our question about whether or not cultural context could be a cause of adaptive CR policies:

"Yes, I agree. There are always cultural norms that decide sensitivities and there are large differences between the USA and China. The social awareness is much higher in the USA than in China. I think it is as much linked to employee motivational factors, as well as to government regulations. One key example is the FDA whistle blower rules. A former USA employee may get an economic benefit from whistle blowing, in cases of corporate fraud or misconduct. Novo Nordisk's response to this has been to make it into a company advantage, and we are encouraging employees to bring forward (and upward) also what may see questionable issues. This has led to enhanced employee satisfaction, as their concerns are being heard and acted upon."

Some particular aspects of the US program also suggest need for adaptation due to institutional difference between Danish and US healthcare situations. An important CR initiative in the US is the Patient Assistance Program (PAP), which is targeted toward the segment of the population, who does not have private health insurance and do not qualify for private, local, state or federal prescription reimbursement. The existence of this specific constituency is unique the US and poses a particular challenge for pharmaceutical companies operating there. These differences and the size and potential of the North American market have led to a situation where CR functions in the social and socioeconomic areas, are largely created and implemented locally.

It appears, however, that practices in the US are not isolated from other parts of the organization, and practices in the US have been the basis of learning for other markets. For example, in the US there has been a practice of engaging with high level decision-makers as a way of affecting change in patient education and healthcare delivery. This practice has been replicated, for example, in the MENA region, where it was perceived that focusing on high level decision-makers could be the most effective means of social change and market entry for Novo Nordisk. In December 2010, Novo Nordisk co-sponsored a high level conference on diabetes care in Dubai, in coordination with local Ministries of Health and Diabetes Associations. This was seen both as a CR initiative focused on awareness raising, and as a critical component of market entry (Interview with VP of Global Affairs, December 2010).

8 Discussion

The propositions posed above lead us expect that the high degree of normative and formal institutional variation between Danish headquarters and the Chinese operations of Novo Nordisk would require a highly localized CR policy. Notions of corporate responsibility are recently evolving in China as the country adjusts to new roles for private corporations in the economy and society. Few aspects of the political and legal system in Denmark and China are shared. On the contrary, Denmark and the US have more similarities. In these two countries, long histories of CR have created relatively high expectations of the firm with regard to social and environmental responsibilities. Both countries are democracies and both are governed by a strong rule of law. The two countries, while having some significant cultural differences, share more common normative frameworks than do Denmark and China. Therefore, we expect that CR policies in the US would overall be close to those adopted in Denmark, and easier to manage from headquarters. Our study of Novo Nordisk found the opposite of these expectations.

We found that social CR in the Chinese subsidiary was largely being managed from the central office in Denmark, albeit employing localized and specific interventions although recently Novo Nordisk China has been granted more independence from the Danish headquarter. There appear to be two reasons for this. The first has to do with Novo Nordisk's experiences in other new markets and emerging economies. Our interviews with Novo Nordisk revealed several aspects of Novo Nordisk's approach to new markets. While Novo Nordisk does not have a particular CR unit, much of the work that is done in the Global Affairs division would qualify as CR. Novo Nordisk's voluntary work on patient information and it s collaborations with NGOs such as National Diabetes Associations and also with health care officials and workers, are key components of its market entry strategy. It appears that Novo Nordisk's experience has given it an opportunity to develop core capabilities in these areas. These capabilities might be described as knowledge about how different actors in a health market are to be approached, how health care systems are organized, and how to work with political and other stakeholders. Thus, even thought the formal institutions and normative context in China might be different from other markets, Novo Nordisk has developed standard methods of working within unique contexts.

A second potential explanation for why CR policies in China are being managed more centrally compared to in the US, lies in Novo Nordisk's reputation as a socially responsible organization. Again, CR appears in Novo Nordisk as a key aspect of its corporate strategy and identity. Since China promises to be one of its largest markets in the future, it is essential that Novo Nordisk upholds it position as a CR leader in its operations there. It appears that Novo Nordisk has expended significant resources to convey its standards of practice to key stakeholders in China, and to understand what kind of adaptations may be needed to accommodate Chinese interests and ways of doing business. Recent revisions to the Novo Nordisk Way are part of the process of approaching China in this way. As noted above, the new "essentials" are stated ore generally than the former list of "fundamentals", allowing more flexibility in interpretation. This allows Novo Nordisk to retain central control over a key set of guiding principles, but to allow some degree of local adaptation in interpretation and enforcement as needed.

The two observations on China confirm the general ideas in propositions 3 and 4 presented above, but they do not confirm the expectations in propositions 1, 2 and 5. Although research on CR suggests that unique institutions and normative contexts help to explain variations in CR policies across companies coming from different nations and location, these factors do not necessarily demand a fully localized approach by transnational corporations entering these markets. On the contrary, Novo Nordisk has found it possible to standardize many key features of its CR policies, and to use local knowledge for learning and adapting these policies over time. In this way, it behaves as an ideal typical transnational, allowing for an ongoing process of learning and rebalancing of global and local capabilities.

Novo Nordisk's operations in the US are currently far more localized than its operations in China. The Global Affairs unit that exists in Denmark is not responsible for the US market, where parallel units appear to exist. A unique US code of conduct has been devised. This code of conduct in the US is heavily based on the values laid out in the "Novo Nordisk Way" but is adapted with regard to regulations and practices in the US context. In our interviews at Novo Nordisk, the more localized organization of the US offices was often explained as being driven by the unique and complex political and legal environment in the US, and the existence of a largely private healthcare system. We can surmise from this explanation, therefore, that formal institutional variation is an important factor in determining the global-local balance in Novo Nordisk, but not necessarily in the way that the CR literature leads us to expect. This literature points us to institutional "voids" and to features of the capitalist systems in the variety of capitalism literature, such as labor market and education institutions. Our study of Novo Nordisk point to institutions of particular value in this industry – the healthcare system and the drug regulation system, specifically. Moreover, this case shows the importance of institutions that shape political influence. Novo Nordisk localizes it CR and government affairs initiatives in the US because influence in these areas are particularly important in carrying out its CR initiatives.

A second possible explanation of localization in the case of Novo Nordisk's operations may also lie in the similarities between Denmark in the US. Control over new and less familiar markets may be an important factor for Headquarter involvement. It is possible that establishing effective communication and mutual learning between the US and Danish operations is easier than doing so with new, less familiar market spaces. Similarities in the normative contexts, in terms of the levels of "social awareness" and familiarity with reporting systems and normative constructs used in CR, are likely to facilitate the sharing of information. Rather than creating an opportunity for centralized control, as we might have predicted, these similarities create a space for cooperation and more equal footing between Headquarters and the subsidiary.

The case study of Novo Nordisk's CR engagement in two of its subsidiaries provides a starting point for research into how successful transnational companies balance global and local management of CR. It thus addresses a key issue of this special issue regarding the scope of CR and how firms determine the degree of adaptation and decentralization of CR decisions. We developed propositions on how this balance might be achieved, on the basis of research that investigates the drivers of particular CR policy in companies from different national home bases. We found that in Novo Nordisk, the rationale for organizing CR between Headquarters and the subsidiaries was in some ways different from what we expected. The case points to two important factors, which can usefully guide future research on this subject. First, it is necessary to better understand which aspects of the institutional context matter for firms in the way that they organize CR between Headquarters and subsidiaries. While the general CR literature is focused on voids and also draws heavily on variety of capitalism models, these may cause us to overlook institutions that are critical to firms for implementing CR policies. In particular, for pharmaceutical firms, the organization of healthcare in different national contexts is likely to be a key variable in determining the degree of localized attention. For all major industries, the political context, and ability to influence public debate on certain issues is also likely to be important. Secondly, our study illustrated that companies can develop core capabilities in CR management which underpin greater standardization and centralization of CR. Novo Nordisk honed its capabilities in stakeholder engagement, outreach, and working with healthcare officials. This has permitted more centralization of CR than might be expected when it enters unfamiliar and highly differentiated markets. Our case study only scratches the surface of these issues, but it points to important avenues for future research. The scope of CR in a global firm may depend on key internal factors, such as the degree of importance of CR in the core business model, the existence of core capabilities in CR management and the type of CR initiatives. As transnational companies begin to focus more on strategic CR, and thus dedicate more resources to it, understanding these issues will become increasingly important.

References

Aguilera, R. V., C. A. Williams, J. M. Conley and D. Rupp. 2006. “Corporate governance and social responsibility: a comparative analysis of the UK and the US.” *Corporate Governance: An International Review* 14(3): 147–158.

Almond, P., T. Edwards, T. Collin, A. Ferner, P. Gunnigle, M. Muller-Camen, J. Quintanilla and H. Wachter. 2005. “Unravelling home and host country effects: an investigation of the HR policies of an American multinational in four European countries.” *Industrial Relations* 44(2): 276–306.

Andersen, P. H. 2008. “Knowledge versus learning in internationalization of offshoring activities in China: a case study.” *Journal of Engineering, Technology and Management* 25: 184–199.

Arena, C. 2007. *The high purpose company*. New York City, NY: Harper Collins.

Baron, D. P. 1995. “Integrated strategy: market and nonmarket components.” *California Management Review* 37(2): 47–65.

Baron, D. P. 2006. *Business and its environment*. 5th ed. Upper Saddle River, NJ: Prentice Hall.

Bartlett, C. A. and S. Ghoshal. 1989. *Managing across borders*. Boston, MA: Harvard Business School Press.

Bondy, K., D. Matten and J. Moon. 2004. “The adoption of voluntary codes of conduct in mncs: a three-country comparative study.” *Business and Society Review* 109(4): 449–477.

Campbell, J. L. 2007. "Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility." *Academy of Management Review* 32(3): 946–967.

Carr, F. 1994. "Introducing teamworking: a motor industry case study." *Industrial Relations Journal* 25(3): 199–209.

DeGeorge, R. T. 2008. "An American perspective on corporate social responsibility and the tenuous relevance of Jacques Derrida." *Business Ethics: A European Review* 17(1): 74–86.

Devinney, T. 2009. "Is the socially responsible corporation a myth? The Good, bad and ugly of corporate social responsibility." *Academy of Management Perspectives* 23(2): 44–56.

Dickman, M., M. Muller-Camen and C. Kelliher. 2009. "Exploring standardization and knowledge networking processes in transnational human resource management." *Personnel Review* 38(1): 5–25.

Dobbin, F. R. 2009. *Inventing equal opportunity*. Princeton, NJ: Princeton University Press.

Donaldson, T. and T. W. Dunfee. 1994. "Toward a unified conception of business ethics: integrative social contracts theory." *Academy of Management Review* 19(2): 252–284.

Donaldson, T. and T. W. Dunfee. 1999. *Ties that bind: a social contracts approach to business ethics*. Boston, MA: Harvard Business School Press.

Eckstein, H. 1975. "Case study and theory in political science." In: F. I. Greenstein, N. W. Polsby (eds.), *The handbook of political science*. Reading, MA: Addison-Wesley, pp. 79–138.

Ferner, A. and J. Quintanilla. 1998. "Multinationals, national identity, and the management of HRM: 'Anglo-Saxonisation' and its limits." *International Journal of Human Resource Management*, August 1998.

Gardberg, N. A. and C. J. Fombrun. 2006. "Corporate citizenship: creating intangible assets across institutional environments." *Academy of Management Review* 2006 31(2): 329–346.

Ghemawat, P. 2007. *Redefining global strategy: Crossing borders in a world where differences matter*. Boston, MA: Harvard Business School Press.

Gond, J.-P., N. Kang and J. Moon. 2011. "The government of self-regulation: On the comparative dynamics of corporate social responsibility." *Economy and Society* 40(4): 640–671.

Gupta, A. K. and V. Govindarajan. 2002. "Cultivating a global mindset." *Academy of Management Executive* 16(1): 116–126.

Hall, P. A. and D. Soskice. eds. 2001. *Varieties of capitalism: the institutional foundations of comparative advantage.* New York, Oxford: University Press.

Haipeter, T. 2002. "Banking and finance in France and Germany, new regulations of work and working time: a challenge for the trade unions?" *Transfer* 3(2): 493–503.

Harzing, A. W. and A. M. Sorge. 2003. "The relative impact of country-of-origin and universal contingencies on internationalization strategies and corporate control in multinational enterprises: world-wide and European perspectives." *Organisation Studies* 24(2): 187–214.

Husted, B. W. and D. B. Allen. 2006. "Corporate social responsibility in the multi-national enterprise: strategic and institutionalist approaches." *Journal of International Business Studies* 37(6): 838–849.

Jackson, G. and A. Apostolakou. 2010. "Corporate social responsibility in Western Europe: CR as an institutional mirror or a substitute?" *Journal of Business Ethics* 94(3): 371–394.

Jamali, D. 2010. "The CR of MNC subsidiaries in developing countries: Global, local, substantive or diluted." *Journal of Business Ethics* 93: 181–200.

Joyner, B. E. and D. Payne. 2002. “Evolution and implementation: a study of values, business ethics and corporate social responsibility.” *Journal of Business Ethics* 41(4): 297–311.

Kapstein, E. B. 2001. “The corporate ethics crusade.” *Foreign Affairs* 80(5): 105–119.

Karnani, A. 2011. “Doing well by doing good – the grand illusion.” *California Management Review* 53(2): 69–86.

Khanna, T., K. G. Palepu and J. Sinha. 2005. “Strategies that fit emerging markets.” *Harvard Business Review* 83(6): 63–76.

Kim, Y. and S.-Y. Kim. 2009. “The influence of cultural values on the perceptions of corporate social responsibility: application of Hofstede’s dimensions to Korean public relations practitioners.” *Journal of Business Ethics* 91(4): 485–500.

Knudsen, J. S. 2011. “Private sector career trajectories for women in Denmark and the US: Welfare state vs. corporate diversity programs.” *European Journal of Industrial Relations* 17(3): 261–275.

Kostova, T. and K. Roth. 2002. “Adoption of an organizational practice by subsidiaries of multinational corporations: institutional and relational effects.” *Academy of Management Journal* 45(1), 215–233.

Kostova, T. and S. Zaheer. 1999. “Organizational legitimacy under conditions of complexity: the case of the multinational enterprise.” *Academy of Management Review* 24(1), 64–81.

Logsdon, J. M. and D. J. Wood. 2005. “Global business citizenship and voluntary codes of ethical conduct.” *Journal of Business Ethics* 59(1–2): 55–67.

Maignan, I. 2001. “Consumers’ perceptions of corporate social responsibilities: a cross-cultural comparison.” *Journal of Business Ethics* 30(1): 57–72.

Maignan, I. and D. A. Ralston. 2002. “Corporate social responsibility in Europe and the US: insights from businesses’ self-presentations.” *Journal of International Business Studies* 33(3): 497–514.

Margolis, J. D. and J. P. Walsh. 2001. *People and profits? the search for a link between a company’s social and financial performance*. Mahwah, NJ: Lawrence Erlbaum Associates.

Matten, D. 2006. “Why do Companies engage in corporate social responsbility? background, reasons and basic concepts.” In: H. Judith, M. Pohl and N. Tolhurst (eds.), *The ICCA handbook on corporate social responsibility*. West Sussex: Wiley, pp. 3–46.

Matten, D. and J. Moon. 2008. ““Implicit” and “Explicit” CR: A conceptual framework for a comparative understanding of corporate social responsibility.” *Academy of Management Review* 33(2): 404–424.

Meyer, K. 2008. *The Ethics of offshoring: Novo Nordisk and clinical trials in emerging economies*. London, Ontario: Richard Ivey School of Business Foundation.

Mayer, M. and R. Whittington. 2003. “Diversification in context: cross-national and cross-temporal extension.” *Strategic Management Journal* 24(8): 773–781.

Morsing, M. and D. Oswald. 2006. “Sustainable leadership: management control systems and organizational culture in Novo Nordisk A/S.” *Corporate Governance* 9(1): 83–99.

Nobel, R. and J. Birkinshaw. 1998. “Innovation in multinational corporations: control and communication pattern in international R&D operations.” *Strategic Management Journal* 19(5): 479–96.

Nohria, N. and S. Ghoshal. 1997. *The differentiated network: organizations knowledge flows in multinational corporations*. San Francisco, CA: Jossey-Bass.

Noorderhaven, N. G. and H. A. Wil. 2003. "The "Country-Of-Origin Effect" in multinational corporations: sources, mechanisms and moderating conditions." *Management International Review* 43(2): 47–66.

Ohmae, K. 1990. *The borderless world: power and strategy in the global marketplace*. London: HarperCollins.

Palmisano, S. J. 2006. "The globally integrated enterprise." *Foreign Affairs* May/June 2006.

Pettigrew, A. M. 1990. "Longitudinal field research on change, theory, and practice." *Organization Science* 1(3): 267–292.

Prahalad, C. K. and Y. L. Doz. 1987. *The multinational mission, balancing global integration with local responsiveness*. New York: Free Press; London: Collier Macmillan.

Redding, G. and M. A. Witte. 2009. "China's business system and future trajectories." *Asia Pacific Journal of Management* 26(3): 381–397.

Reich, R. B. 1998. "The new meaning of corporate social responsibility." *California Management Review* 40(2) Winter: 8–17.

Ruggie, J. G. 2003. "The United Nations and globalization: patterns and limits of institutional adaptation." *Global Governance* 9, Summer.

Sethi, S. P. 2002. "Standards for corporate conduct in the international arena: challenges and opportunities for multinational corporations." *Business and Society Review* 107(1): 20–41.

Scherer, A. G. and G. Palazzo. 2007. "Towards a political conception of corporate responsibility business and society seen from a Habermasian perspective." *Academy of Management Review* 32(4): 1096–1120.

Scherer, A. G. and G. Palazzo. 2011. "The new political role of business in a globalized world: a review of a new perspective on CR and its implications for the firm, governance, and democracy." *Journal of Management Studies* 48(4): 899–931.

Sorge, A. 1996. "Societal effects in cross-national organisation studies: conceptualising diversity in actors and systems." In: P. H. Kristensen and R. Whitley (eds.), *The changing European firm*. London: Routledge: pp. 67–86.

Streeck, W. 1996. "Lean production in the german automobile industry: a test case for convergence theory." In: B. Suzanne and R. Dore (eds.), *National diversity and global capitalism*. New York: Cornell University Press: pp. 138–170.

Valente, M. and A. Crane. 2010. "Public responsibility and private enterprise in developing countries." *California Management Review* 52(3): 52–78.

Whitley, R. 1999. *Divergent capitalisms: the social structuring and change of business systems*. Oxford: Oxford University Press.

Whitley, R. 2007. *Business systems and organizational capabilities: the institutional structuring of competitive competences*. Oxford: Oxford University Press.

Woywode, M. 2002. "Global manufacturing concepts and local adaptation: working groups in the French and German car manufacturing industry." *Organization Studies* 23(4): 497–524.

Yin, R. K. 1994. *Case study research: design and methods*. 2nd ed. Beverly Hills, CA: Sage Publishing.

DE GRUYTER DOI 10.1515/bap-2012-0023 — Business and Politics 2012; 14(3): 1–34

Corporate Responsibility, Multinational Corporations, and Nation States

Tanja A. Börzel*, Jana Hönke and Christian R. Thauer

Does it really take the state?

Abstract: This paper explores the role of the state for an effective engagement of multinational corporations (MNCs) in corporate social responsibility (CSR).[1] In the OECD context, the "shadow of hierarchy" cast by the state is considered an important incentive for MNCs to engage in CSR activities that contribute to governance. However, in areas of limited statehood, where state actors are too weak to effectively set and enforce collectively binding rules, profit-driven MNCs confront various dilemmas with respect to costly CSR standards. The lack of a credible regulatory threat by state agencies is therefore often associated with the exploitation of resources and people by MNCs, rather than with business' social conduct. However, in this paper we argue that there are alternatives to the "shadow of hierarchy" that induce MNCs to adopt and implement CSR policies that contribute to governance in areas of limited statehood. We then discuss that in certain areas such functional equivalents still depend on some state intervention to be effective, in particular when firms are immune to reputational concerns and in complex-task areas that require the involvement of several actors in the provision of collective goods. Finally, we discuss the "dark side" of the state and show that the state can also have negative effects on the CSR engagement of MNCs. We illustrate the different ways in which statehood and the absence thereof affect CSR activities of MNCs in South Africa and conclude with some considerations on the conditions under which statehood exerts these effects.

***Corresponding author: Tanja A. Börzel,** Freie Universität Berlin, Ihnestr. 22, D-14195 Berlin, Tel.: +49 30 838 54 830, E-mail: tanja.boerzel@fu-berlin.de
Jana Hönke: Freie Universität Berlin, Ihnestraße 22, D-14195 Berlin, Germany
Christian R. Thauer: Freie Universität Berlin, Ihnestrasse 22, D-14195 Berlin, Germany

1 The paper draws on findings of a four-year collaborative research project "Business and Governance in South Africa", conducted in the Collaborative Research Center (SFB 700) "Governance in Areas of Limited Statehood" (cf. http://www.sfb-governance.de/en/index.html). We would like to thank Kendra Dupuy, two anonymous reviewers, and in particular Aseem Prakash and Jennifer J. Griffin for extremely helpful comments on earlier versions of this paper.

1 Introduction

In an increasingly globalized economy, multinational companies (MNCs) are assumed to escape strict national regulation by relocating their production sites to areas of limited statehood where regulation is low and enforcement is weak. This behavior drives states into a "race to the bottom", leading to the degradation of natural resources and the compromising of social standards for the sake of economic growth or short-term foreign investment (Kaufmann and Segura-Ubiergo 2001; Lofdahl 2002; Rudra 2002; Chan and Ross 2003). At the same time, however, companies have been "drawn into playing public roles to compensate for governance gaps and governance failures at global and national levels" (cf. Cutler et al. 1999; Haufler 2001; Hall and Bierstecker 2002; Ruggie 2004: p. 13; Pattberg 2006; Flohr et al. 2010). Empirical evidence abounds on companies which voluntarily commit themselves to social and environmental standards and adopt private self-regulatory regimes – even in the absence of a regulatory threat by the state (Mol 2001; Vogel and Kagan 2004; Flanagan 2006; Risse 2011). Studies show, e.g., that foreign direct investments originating from a country with high levels of self-regulation unleash norm-diffusion dynamics among competitor firms that in turn lead to higher levels of business self-regulation in the weakly regulating host country, i.e., where the investments are made (Prakash and Potoski 2007; Greenhill et al. 2009). Also, exporting to a highly regulating country creates a surge for higher standards in low-regulating countries (Greenhill et al. 2009).

These studies leave no doubt that companies can contribute to the provision of common goods and services, which we term "governance". What remains open and will be explored in this article are the conditions under which companies are in fact willing to provide such governance contributions, channelled through their corporate social responsibility (CSR) activities in areas of limited statehood. How does statehood and the absence thereof affect whether companies effectively contribute to collective goods provision? We define governance as the crafting and implementation of collectively binding norms and rules for the provision of common goods or the provision of common goods itself (Börzel and Risse 2010; Risse 2011).

This article suggests, firstly, that it does not always take the threat of state regulation, elsewhere depicted as the "shadow of hierarchy" (Scharpf 1997; Héritier and Lehmkuhl 2008), to make MNCs engage in CSR that contributes to governance. Rather, we identify alternatives or "functional equivalents" (Draude 2007; Börzel and Risse 2010) to the "shadow of hierarchy". By functional equivalents this article understands factors other than the threat of state regulation that generate incentives, positive and negative, for MNCs to engage in forms of CSR that contribute to governance. We consider in particular the following factors: market incentives, reputational concerns and public pressure, the "shadow of anarchy" (see Mayntz and Scharpf 1995), defined by the absence of any state involvement in the provision of common goods, and an external "shadow of hierarchy" cast by home states of MNCs and by international organizations.

Secondly, we discuss which CSR activities may still require the involvement of the state and, thus, a certain amount of state capacity to set and enforce regulations and to provide basic infrastructures in order to effectively contribute to governance. To what extent do functional equivalents to the "shadow of hierarchy" still depend on a minimum of statehood to make MNCs engage in CSR that effectively contributes to e governance? Do different degrees of statehood give rise to different forms of CSR governance contributions? We argue that there are two conditions under which statehood is still relevant: First, a degree of state capacity is necessary to make companies, that are immune to reputational concerns, contribute to CSR. Second, complex-task CSR activities require the co-production of governance with the state.

Having dealt with statehood as positively related to business' CSR engagement that contributes to governance, we turn the perspective and discuss, thirdly, potential "dark sides" of the state. Despite limited capacities, states can discourage or undermine the provision of common goods by MNCs in areas of limited statehood: state actors can engage firms in exclusive governance arrangements that result in club goods benefitting only privileged individuals or groups closely related to the state. Such "patrimonial collusion" (Handley 2008; Hönke forthcoming-b) is the opposite of inclusive governance arrangements. Inclusive governance is concerned with the reduction of negative externalities and the contribution to the provision of open-access goods. Our third argument thus emphasizes that although state capacities are necessary to make companies engage in CSR in some areas, state capacities – limited as they may be – can also negatively affect firms' attempts to contribute to governance.

The article starts with a definition of key concepts. We then outline how functional equivalents to the "shadow of hierarchy" induce CSR activities of MNCs that contribute to governance in areas of limited statehood. The subsequent sections discuss the ambivalent role of the state, limited as its capacities might be, as both a facilitator and inhibitor of CSR governance contributions. Finally, we present empirical case studies which illuminate the different ways in which statehood and the absence thereof affect CSR activities of MNCs in areas of limited statehood. Empirically, we draw on extensive research on corporate engagement in governance in South Africa. Areas of limited statehood are widespread in South Africa and the capacity of the South African state to set and, particularly, to enforce binding regulation is weak, especially at the local level. South Africa thus provides a context to explore what difference limited statehood makes to the CSR engagement of MNCs that contribute to governance. The article concludes with a short summary of our main arguments and some considerations of potential scope conditions for the causal relevance of statehood.

2 The CSR engagement of MNCs and governance in areas of limited statehood

While the engagement of MNCs in CSR is well understood, research on their governance contributions in so called "areas of limited statehood" is still emerging. We define areas of limited statehood as areas in which government lacks the capacity to set and implement collectively binding rules and to provide collective goods (Börzel and Risse 2010; Risse 2011). This lack reduces the ability of government to cast a credible "shadow of hierarchy", by which we understand the threat of government to enforce regulation in an issue area or industry (Scharpf 1997; Héritier and Lehmkuhl 2008). A prerequisite for an effective "shadow of hierarchy" is the capacity of the state to hierarchically impose collectively binding rules, for which sufficient financial and material resources, personnel, and expertise are essential. Many governments are not capable to either set or enforce legislation at the domestic level. Notorious examples of areas of limited statehood are the *favelas* in Latin America, the townships of Africa, the "special economic zones" in Asia, or secessionist regions in the Western Balkans, the Southern Caucasus and China. It is important to note that we find different areas of limited statehood *within* states, such as in South Africa; states' capacity to set and enforce collectively binding rules and provide common goods can be limited in specific issue areas, such as environment, health, or security, and in geographical sub-regions (cf. Risse 2011). The concept of areas of limited statehood applied in this article avoids the methodological nationalism inherent in concepts of failing/failed states; it focuses on state capacities (*statehood*) rather than state territory, and identifies limitations in the specific functional and geographical *areas* in which MNCs operate.

By governance contributions we refer to those CSR activities by business that help to set and implement collectively binding rules for the provision of common goods or the provision of common goods itself. This entails the reduction of negative externalities, such as environmental pollution, as well as direct governance contributions, e.g., the development and implementation of HIV/AIDS programs. While companies do not have to perform these latter governance functions in cooperation with state agents, the impact of their CSR (voluntary, self-regulatory) activities should reach beyond the purview of the companies to qualify as more than a private good. Moreover, we do not consider commitment to CSR initiatives alone but focus on MNC engagement that translates into policies, institutions and resources dedicated to put a commitment to CSR into practice.

Why should MNCs engage in types of CSR which contribute to governance in areas of limited statehood? Firms are not committed to the common good. They pursue private interests. The business of business is to maximize private profits, not social welfare.[2] Empirically, however, we find that under certain conditions firms engage in CSR activities which contribute to governance. The literature on governance in areas of consolidated statehood shows that the "shadow of hierarchy" cast by the state is a key incentive in this respect. In order to avoid state regulation, firms choose voluntarily to commit themselves to reaching a regulatory outcome closer to their preferences. Moreover, the possibility of state regulation reduces the incentive to renege on a voluntary commitment.

In those parts of the world, however, where the state's capacities to regulate business behavior are weak and a "shadow of hierarchy" is therefore absent, it is far less clear what could be the motivation of firms to contribute to governance. Nonetheless, we do find MNCs engaging in CSR in these areas of limited statehood. They do not only adopt global standards to govern their worldwide business activities (Prakash and Potoski 2006, 2007; Epstein and Roy 2007) but voluntarily implement environmental protection standards, provide HIV/AIDS-related services, or agree to use sustainable energy (Flohr et al. 2010; Börzel and Thauer forthcoming). In some instances, they even regulate their supply chains, and seek to foster state regulation by pressuring for stricter legislation and helping to strengthen the enforcement capacity of state actors (Börzel and Thauer forthcoming; Vogel and Kagan 2004). How can we explain these findings?

2.1 Functional equivalents to the "shadow of hierarchy"

We start from the assumption that (the threat of) state regulation – that is, a credible "shadow of hierarchy" – is not necessarily a precondition for companies to participate in the provision of common goods. More precisely, we argue that functional equivalents to the "shadow of hierarchy" can make MNCs engage in CSR that contributes to governance in areas of limited statehood. The threat of state regulation is not the only way to generate incentives for firms to engage in the provision of common goods (cf. Börzel and Risse 2010). Functional equivalents can ensure that firms agree to engage in CSR (commitment) and do not renege

2 Milton Friedman, "The Social Responsibility of Business is to Increase its Profits" in: *The New York Times Magazine*, 13 September 1970.

on their commitment (compliance). Four such functional equivalents stand out. First, CSR can be a successful market strategy. Standards can yield economic gains by enhancing the product quality and, as a consequence, the prospect of a more successful marketing of the product (Parker 2002; Ammenberg and Hjelm 2003; Anton et al. 2004). By incorporating environmental and social standards into their management systems, for instance, MNCs have been able to secure and expand their market shares and reduce production costs (Porter and van der Linde 1995; Barney 1997; Porter and Kramer 2002). Competitors may follow suit for fear of losing market shares or because they seek to emulate their successful peers (Bansal 2005; Potoski and Prakash 2005; Prakash and Potoski 2006). We suggest that such a "race to the top" (Vogel and Kagan 2004) – a competitive dynamic leading to the adoption and spread of higher standards among firms – is also at work in areas of limited statehood.

Second, the reputation of a company and the loyalty of its clients constitute a key corporate asset (Spar and LaMure 2003). This is especially true if companies sell to the "LOHA" segment (Lifestyles of Health and Sustainability), i.e., to consumers that value and demand sustainable products and the respect of social and environmental standards and are willing to pay a premium for this. Such brands will gain a competitive advantage vis-à-vis competitors if they take the lead position in their industry with respect to strict self-regulatory standards (Auld 2008; Epstein 2008; Smith 2008). Conversely, a competitor in that segment which is found to blatantly neglect its corporate social responsibilities will lose customer loyalty and its reputation and, consequently, market shares (Haufler 2001; Mol 2001: pp. 97–100; Blanton and Blanton 2007). Moreover, obvious violations of social or environmental standards may provoke campaigns by transnational NGOs (Newell 2001; Baron 2003; Flohr et al. 2010) and local community-based organizations (Eweje 2005; Lund-Thomson 2005; Bowen Newenham-Kahindi and Herremans 2008). Such public shaming can result in consumer boycotts, loss of reputation and market shares, falling stock market prices and criticism by shareholders (Wheeler 2001; Hendry 2006; Waygood 2006). We therefore argue that companies under attack will seek to pacify the critics through the adoption of high self-regulatory standards and an ostensive commitment to social responsibilities (Hoffmann 2001; Trullen and Stevenson 2006; Schepers 2006; Halfteck 2008). Pressure to engage in CSR, finally, can also emanate from peers who are concerned that "one rotten egg spoils the entire cake", i.e., the reputation of an industry sector (Hönke and Kranz forthcoming, Hönke forthcoming-b, Prakash 2005). Business associations and informal networks often act as transmitters of peer pressure (Kollman and Prakash 2001). The vulnerability of companies to these various kinds of pressures is stronger if a company has intra-firm investments in technology and human capital formation (Thauer 2010, 2012 [forthcoming]) or a brand name to protect, targets a high-end market (Haufler 2001; Mol 2001: pp. 97–100; Blanton and Blanton 2007), has an international (export) orientation (Bansal and Roth 2000) or if its product is highly visible to end-consumers (Deitelhoff and Wolf 2010). Highly visible multinational companies operating in areas of limited statehood, such as from extractive industries for instance, are not only confronted with an alert public but also with a general suspicion to do bad in these areas. Engaging in CSR, even without having been targeted by a specific shaming campaign, is a way to signal good behavior to shareholders and the public (Hönke and Kranz forthcoming).

Third, while companies operating in areas of limited statehood hardly face a credible “shadow of hierarchy” cast by the host state, it may be precisely the absence of the threat of strict(er) regulation that creates an incentive for companies to engage in CSR. If the state is not capable of setting and enforcing collectively binding decisions, companies are not confronted with a situation in which they have to weigh the costs of cooperation and voluntary commitment against the possibility of a suboptimal hierarchically imposed policy by the state. Rather, they face the danger of not having a common good at all. If the pursuit of their individual profit depends on the provision of certain common goods and collectively binding rules to produce them, respectively, and the state is not capable or unwilling to provide them, the “shadow of anarchy” (Mayntz and Scharpf 1995) provides companies with a major incentive to step in and fill the governance gap. Yet, they still confront free rider problems. Hence, instead of voluntary self-regulation, we expect in such situations collective CSR activities in the context of business associations, which can mitigate the free rider problem through strict rules, information provision and the imposition of costs for non-compliance (Ronit and Schneider 2000).

Finally, while the “shadow of anarchy” substitutes for the “shadow of hierarchy”, the latter can also be generated externally. International organizations and foreign governments can commit companies to the common good. On the one hand, under international law, MNCs can be obliged to comply with standards of good governance in areas of limited statehood (Ladwig and Rudolf 2011). On the other hand, national governments of (consolidated and democratic) states, where MNCs have their headquarters, may also force them to contribute to governance in areas of limited statehood. In this particular case, home country laws are in place and enforceable which require non-state actors such as companies to comply with standards of good governance or other regulations (e.g., environmental laws) irrespective of where they invest or act.

In sum, we argue that firms may engage in CSR activities that contribute to governance in areas of limited statehood despite weak capacities of the state to set and enforce collectively binding norms and rules. The “shadow of anarchy”, an external “shadow of hierarchy”, competitive and reputational costs or benefits provide incentives that are functionally equivalent to the "shadow of hierarchy" cast by the state to make MNCs adopt and implement CSR policies.

2.2 Is the state still necessary? Areas where limited statehood and governance collide

While functional equivalents can make MNCs engage in CSR activities, it may still require a minimum of statehood to ensure that these activities really contribute to governance, particularly when it comes to putting voluntary commitment into practice. We submit two arguments in this respect. First, when firms are not much concerned about their reputation, pressure from consumers, peers, shareholders, or NGOs may yield hardly any effects on the CSR activities of MNCs. Under such circumstances, the state may become the addressee of advocacy networks and consumer campaigns in order to make it put pressure on firms to commit to CSR. We call this mechanism "invoking state authority". Local activist groups exert pressure on the state to put pressure on individual companies. This may seem to contradict the notion of areas of limited statehood, where the state by definition is too weak to threaten companies with the implementation of strict regulation. However, while limited capacities of the state refer to the overall lack of ability to regulate companies systematically, state actors and resources do exist nonetheless. The question is on which tasks they are spent. If state agencies are pressured to concentrate their activities and resources on one or a few particular companies, these companies will have to react and give in to the pressure that is exerted upon them in turn. Ultimately, such a concentration of state activities threatens the "license to operate" of the targeted company. Such mechanisms of "invoked state authority" are also relevant for the external "shadow of hierarchy" cast by consolidated states hosting the head quarters of MNCs – or by international organizations whose capacity to enforce international standards depends on the cooperation of consolidated states.

Second, MNCs willing to abide with CSR norms and to contribute to governance may still be inhibited from doing so by limited statehood. The "shadow of hierarchy" cast by the state can be substituted by economic incentives. However, there is more to statehood than generating incentives. CSR activities often need to be be institutionally embedded in order to contribute to the provision of a common good. In other words, their effective implementation might depend on a functioning state structure. This is particularly likely in the case of complex task areas of CSR activity. Such tasks are interactive and tightly coupled with a number of actors and functional fields (Perrow 1972). Combatting HIV/AIDS is such a complex, context-specific issue that characterizes the non-market operational environment of

MNCs in many Sub-Saharan countries. Workplace and community programs that combat the epidemic can be understood as a cross-functional CSR engagement in the areas of human resources, health and development. For example, automotive firms in South Africa that invest substantially in specific skills of their employees often feel inclined to safeguard this investment by setting up HIV/AIDS workplace programs (Thauer 2010, 2012 [forthcoming]). Large mining firms in South Africa dispose of a largely low-skill workforce, yet still engage in HIV/AIDS workplace and community programs. With these activities firms respond to public pressure and reputational concerns as well as to the costs HIV/AIDS imposes on firms in contexts with strong labor regulation, such as South Africa (Hönke forthcoming-a). Combatting HIV/AIDS effectively requires a comprehensive health care system that reaches out to entire families and communites in order to prevent infection and provide care for infected people. It is also related to broader social, economic and cultural factors that need to be addressed. Similarly, environmental standards must be set locally to be at all applicable for firms. If local state agencies do not issue any such regulation, MNCs face difficulties in asking their suppliers to adhere to the standards to which they have committed under their CSR engagement. Governance without government can be, and sometimes needs to be, strengthened by governance by government in the same area in order to be comprehensive and effective (see also Amengual 2010). Turning the CSR activities of MNCs into governance contributions often requires a basic institutional infrastructure. This is particularly the case where the provision of a commom good is a complex, “coupled task” [Schäferhoff forthcoming (2011)] that relies on the cooperation with – or fulfillment of functions by – other actors than the MNCs. With respect to CSR activities that reach beyond the corporate purview it is often the state that is looked upon to provide the infrastructure to put in place such cross-functional governance and to provide basic security or legal certainty as a precondition for contributions by firms in complex-task areas of CSR. By contrast, if the task is “decoupled” [Schäferhoff forthcoming (2011)], MNCs do not require any additional state capacities to provide common goods. We therefore expect that the more CSR activities of MNCs concern a coupled task, the more it takes the state to turn them into governance contributions, ceteris paribus.

2.3 The role of the state reconsidered – the “dark side” of statehood

While statehood may often be needed for turning CSR activities of MNCs into governance contributions, its presence can also have the reverse effect. This is, however, not so much related to statehood casting a credible ‘shadow of hierarchy', as to the lack of willingness on the part of state actors to encourage governance contributions by companies in the first place. On the one hand, governments in areas of limited statehood tend to lack autonomy from business. On the other hand, they may (ab)use their legal authority to impose some of their political and personal economic interests on firms. MNCs rely on informal political networks to receive state contracts and licenses in many areas of limited statehood. Companies then owe members of these networks personal favors (Reno 2001; Handley 2008). State actors may also prevent companies from providing a particular common good and obstruct their CSR activities if these activities address issue areas in a way not supported by governemnt or opposition groups. In the sensitive area of security, for instance, government authorities seek to demonstrate and reinforce their claim to sovereignty which is inherently linked to controlling the use of force, by preventing companies from providing human rights training to the police (Hönke forthcoming-b). In South Africa, the government has long opposed conventional theories about HIV/AIDS and therefore obstructed business engagement in combating the pandemic. Another way of the state acting against governance contributions by firms is to use the law as a weapon against MNCs that pursue a politically sensitive agenda, as recently experienced by google in China. Hence, governments in areas of limited states may be too weak to cast a "shadow of hierarchy" over MNCs to make them engage in CSR that contributes to governance. But they can still undermine the provision of common goods by CSR activities of MNCs casting a "reversed" "shadow of hierarchy" by "throwing the book of law" on firms if they undermine their political power or act against their economic interests. Finally, state actors may refuse to provide MNCs with the necessary support for contributing to governance fearing "agency loss" or "agency capture" because of the inferiority of their financial resources, personell and expertise (Stigler 1971; Hellmann et al. 2002; Börzel 2009). Collective goods provision by companies may in fact be perceived as negatively affecting the authority of the state in a particular functional field or region (Tsai 2011).

The dark sides of statehood may be reinforced by companies that actively seek to use political networks to gain access to markets or favorable contract conditions. Such "neopatrimonial collusion" (Handley 2008; Hönke forthcoming-b) of business and state increases the likelihoood that CSR activities of MNCs take on the form of club goods limited to a political network. In this case, the good provided is not accessible for the general public or group of designated beneficiaries, but benefits those that are priviledged already. MNCs may find such "neopatrimonial collusion" acceptable or even economically beneficial (Reno 2001; Hönke 2012). Yet, if companies are reputation-driven, it constitutes a serious economic risk. NGOs or the media may pick up on such practices, with potentially severe consequences for the brand image of the firm.

To conclude, while a certain degree of statehood may be still necessary to make CSR activities that contribute to governance work, statehood can also discourage or undermine MNC efforts. This raises the question of scope conditions. Our findings indicate that the dark side of statehood is less likely to emerge if it is kept in check by institutional restraints (Börzel 2009; Börzel 2012). At the national level, such restraints can consist in an effective rule of law and institutional checks and balances on government, such as democratic elections. At the local level, social cohesion can hold local politicians accountable and make them strive for inclusive governance outcomes (Tsai 2007). Local leaders are thus more likely to engage in exclusive governance arrangements where low social cohesion combines with weak accountability mechanisms.

3 CSR and MNCs in South Africa

To illustrate the different ways in which statehood and the absence thereof affects the ways in which the CSR engagement of MNCs contribute to governance in areas of limited statehood, we draw on the findings of a four-year research project on corporate engagement in CSR in South Africa (cf. Börzel and Thauer forthcoming). South Africa is a newly industrializing country whose legal standards are fairly well developed in most policy areas, while the state's capacity for implementing regulations and securing compliance is rather weak. The capacity of the state to cast a credible "shadow of hierarchy" is weak in various geographical areas and policy fields. For instance, since the mid-1990s, the South African government has developed ambitious and far-reaching environmental legislation in the fields of water, biodiversity and recently also air. While legal requirements are comprehensive and demanding, details pertaining to the specific behavior of firms are often not spelled out in detail. Moreover, overlapping responsibilities of several government departments lead to regulatory confusion, contradicting requirements and implementation gaps. Most importantly, the implementation of regulations is in many cases deficient since local state agencies lack the capacity to effectively monitor and sanction corporate malpractice. However, the capacity of local state authorities varies such that implementation and enforcement are for example much better in the Western Cape than in Limpopo province. Finally, compliance with environmental standards tends to entail significant costs, which firms are reluctant to bear.

The situation is very different with regard to the fight against HIV/AIDS. South Africa belongs to the countries with the highest HIV/AIDS rates in the world. This makes the pandemic a highly relevant, context specific issue of

CSR for companies operating in South Africa. With widespread prevalence of HIV/AIDS, firms experience an increase in employee turnover. Employees remain absent from work because they fall ill or because infected family members need to be looked after. The South African state has lacked both the capacity and the political will to comprehensively fight the disease. In the absence of public health care provision in this area, in particular those firms that have invested in skills of employees have a basic interest in contributing to overcoming this problem. But also firms with low-skilled labor respond to reputational challenges and costs imposed by the specific South African environment with the establishment of extensive HIV/AIDS workplace and community programs.

To inquire the role of the state and its capacity to set and enforce collectively binding rules for governance contributions of MNCs empirically, we will analyze the CSR behavior of several companies in the automotive and mining sectors. The automotive sector is dominated by seven international brands that operate production sites in South Africa: BMW, Ford, General Motors, Nissan-Renault, Mercedes Benz, Toyota and VW. Generally speaking, two to three out of these seven brands – BMW, Mercedes Benz and Toyota – target a premium segment of the automotive market. Ford, General Motors, Nissan-Renault, VW and Toyota produce cars for a middle class mass segment. Toyota is in many ways an exception, as its strategy is the most comprehensive of all automotive producers. The company strives for market dominance in all market segments (recent problems with production notwithstanding) and is thus a mass as well as premium segment producer.

The South African mining sector is dominated by some of the largest multinational companies worldwide, including Anglo American, BHP Billiton and De Beers. These are followed by important large and medium-sized companies such as Anglogold Ashanti, Goldfields, Impala Platinum and others. In contrast to the automotive sector, most of these companies are originally from South Africa. Anglo American and BHP have shifted their headquarters to the UK and Australia, respectively, after the end of apartheid. Both of them, as all large and medium-sized companies considered in this article, are listed on international stock exchanges in London, New York and/or Toronto.

The two sectors comprise a significant number of foreign as well as local companies with or without brand names, catering to different market segments within South Africa. The firms we analyze also differ in size and are exposed to varying pressure from NGOs and foreign competition. Comparing their CSR engagement and contribution to environmental protection and the fight against HIV/AIDS in different localities allows us to explore the impact of functional equivalents to a "shadow of hierarchy" cast by the South African state.

3.1 Functional equivalents to the "shadow of hierarchy"

The cases of multinational automotive and mining companies in South Africa clearly show that there are functional equivalents to the "shadow of hierarchy". Reputational costs and benefits linked to the protection of a brand name and yielded by the higher market value of products, respectively, as well as pressures by NGOs, foreign competitors and their country of origin induce MNCs to engage in CSR activities that contribute to environmental protection and the fight against HIV/AIDS. We also find support for the "shadow of anarchy".

To illustrate the effects of reputational concerns, we analyze two automotive firms that target a premium segment of the consumer market and one firm that focuses on the mass market (Thauer 2010).[3] The difference in the target market is reflected in the fact that the firms aiming at the premium market sell their products at higher average prices than the one firm targeting a mass market. Managers of the two high-end market firms stated in addition that they rely less on economies of scale than other automotive firms targeting low-end markets, and are able to add mark-ups to end-prices.[4] The difference in the target market is further reflected in the importance of consumer expectations. Especially as regards quality, the two high-end market firms are faced with much higher consumer expectations[5] than the mass-market firm.[6] Hence, they are more vulnerable in this respect. Moreover, the high-end market producers stated that they do not perceive themselves as competitors of the low-end market firm. That is, they do not operate in the same consumer markets. Hence, our analysis features two firms that are particularly affected by reputational losses as well as reputational gains, and one firm less driven by reputational concerns.

How do these differences impact upon the CSR related governance contributions of the three firms? We find a variation in the extent of self-regulation of

3 We chose the three cases as they are highly similar in all important aspects except for the factor 'brand name/target market'. Thus, this case selection allows us to evaluate the isolated effects of different intensities of reputational concerns on CSR policies of MNC.

4 Interviews with the corporate affairs manager and the public communications manager/high-end market firm 1 (anonymized), Munich, 02 August 2007; telephone interview with the director of public affairs and policy/high-end market firm 2 (anonymized), 06 August 2007.

5 Ibid.

6 Interviews with the corporate social responsibility manager, the corporate affairs manager and the environmental manager/low-end market firm (anonymized), Rosslyn, 14 February 2007.

the three automotive producers.[7] The differences, however, occur at a relatively high level of regulation: All three automotive manufacturers apply high levels of self-regulation as regards strictness of rules and the resources allocated to implement these rules. All three firms operate ISO 14001 and ISO 9001 certified management systems. These systems come to bear within a firm *and* within the supply chain (Héritier et al. 2009). All three producers request both kinds of management systems from their first tier suppliers: ISO 14001 is an environmental management system; ISO 9001 is a quality management system with environmental components. These two certification schemes demand a high level of standards, independent legal compliance audits and certificates. Since South African environmental legislation is quite demanding as regards formal provisions (even though implementation is not satisfactory) this means that the environmental policies of the three manufacturers are quite strict. Moreover, the implementation of self-regulation is subject to an auditing process and systematic control. Non-compliance is sanctioned by non-certification. In other words, the certification schemes not only provide for monitoring, but also for enforcement.

Beyond these similarities in the application of ISO certified management systems, there are also some differences in the self-regulation of the three firms. The high-end market producers operate, in addition to the ISO management systems, particularly strict and demanding in-house environmental and quality management systems. These systems are company-specific and prescribed by their global headquarters. As regards the degree to which rules are demanding, their scope and strictness, they go beyond both the standards of the ISO management systems and of South African legislation. In fact, these specific in-house systems require full compliance with all relevant European environmental process and product regulations and even go beyond European legislation. The mass producer, on the other hand, in addition to the ISO certified systems, also provides its own in-house policies. These policies are, however, less strict when compared to the premium producers. Moreover, the mass producer's practice

7 The following draws on information from the interviews with the environmental manager and the corporate planning manager/high-end market firm 1 (anonymized), Rosslyn, 20 February 2007; the interviews with the corporate affairs manager and the public communications manager/high-end market firm 1 (anonymized), Munich, 02 August 2007; the interview with the occupational health and corporate social responsibility manager/high-end market firm 2 (anonymized), East London, 26 February 2007; the telephone interview with the director of public affairs and policy/high-end market firm 2 (anonymized), 06 August 2007; the interviews with the corporate social responsibility manager, the corporate affairs manager and the environmental manager/low-end market firm (anonymized), Rosslyn, 14 February 2007.

focuses almost exclusively on quality standards, rather than requiring more stringent environmental self-regulation.

In sum, the self-regulatory standards of the mass producer are less demanding than those of the premium producers. This difference, however, only exists with respect to in-house self-regulation. Self-regulation with respect to the supply chain is very similar in all three firms: all automotive manufacturers only require ISO certified management systems from their first tier suppliers.

One possible explanation for this finding is that a similar and standardized approach in the supply chain guarantees “vertical compatibility” (Farrell 2007: p. 378). It decreases the degree to which large automotive buyer firms are dependent on specific suppliers, thereby reducing the risk of becoming victims of “hold ups” and excessive rent seeking behavior in their relationship with suppliers (Farrell 2007; Héritier et al. 2009). Next to the effects of reputational concerns on companies, this finding also illustrates our argument that “race to the top” dynamics (Vogel and Kagan 2004) with respect to voluntary standards can take place in areas of limited statehood, if the adoption of standards yields economic gains.

While such “race to the top” dynamics (Vogel and Kagan 2004) certainly contribute to environmental governance in South Africa, they may have adverse effects on the governance of other issue areas, such as competition and social policy. Raising the level of standards in an industry sector always means that competitors that do not meet these standards are kept out of the market (Greenstein and Stango 2007). A striking example in this respect is the South African association of automobile manufacturers (NAAMSA), which successfully lobbied the South African government to issue stricter environmental regulation to keep low-regulating competitors from China, India and South America and their cheaper cars out of the South African market (Thauer 2010). More precisely, the association – driven by European, Japanese, and German originating mass market producers – feared an entrance of cheap Chinese and Indian cars on the South African car market and therefore pressed the government to issue stricter regulations with respect to emissions of new vehicles.[8] In response to this lobbying attempt, the South African government raised the level of emission

8 Cf. Cokayne, Roy 2008: “McCarthy Adds Cheap Chery Range”, in: *Business Report*, 12 May 2008: www.busrep.co.za/index.php?fSectionId=563&fArticleId=4397598 (last accessed 11 June 2011); interview with the chairperson of the fuel and emissions committee of NAAMSA who also serves as the environmental and industrial planning manager of a low-end market firm/ NAAMSA and low-end market firm 1 (anonymized), Rosslyn, 20 February 2007; interview with the occupational health and corporate social responsibility manager/high-end market firm 2 (anonymized), East London, 26 February 2007.

regulations as requested by NAAMSA, so that the cheap car competitors could not sell cars legally on the South Africa market.[9] Mobility is a prime social issue in South Africa, and the lack thereof a main barrier to employment for people who live in remote townships far away from the industrial centers. Keeping cheap cars out of the market may thus be regarded not only as an obstacle to free trade, but also as hampering enhanced mobility and an inclusive labor market. Hence, this example demonstrates that raising standards may involve trade-offs – in this case between, on the one hand, an enhanced environmental protection and, on the other hand, enhanced mobility and free markets.

Unlike in the automotive sector, end-consumer markets do not play a role in the case of most mining companies as most industrial and precious metals are traded at the London Metals Exchange or are sold on the basis of bulk contracts to governments and large companies. Yet, end-consumers do play an important role in one special case, namely in the diamond mining industry. We have argued that the reputation of a company and the loyalty of its clients constitute a key corporate asset and can earn a premium for "socially responsible" products. Such companies are, at the same time, particularly vulnerable to campaigns that undermine their reputation. Clearly a luxury good for the upper-end consumer market, people attach emotional values to the stones taking them as a symbol for purity. That image was successfully put at risk by the campaign against blood diamonds that accused large companies such as De Beers and other traders of precious stones to buy and sell stones from conflict regions. De Beers is engaged in the production, trading and selling of diamonds and this campaign threatened the company's brand as well as the image of the product itself. In reaction, De Beers joined a certification system for diamonds, the Kimberley Certification System set up in 2003.[10]

De Beers' engagement in governance in this case cannot only be traced to social mobilization and concerns over reputational costs. By the time of the blood diamond campaign, the company was losing market shares to smaller traders. De Beers saw the certification scheme not only as a tool for regaining consumer confidence, but also as a way of keeping new traders out of the market and regaining its earlier dominant market position (Paes 2005, Kantz 2006). This case supports

9 Consumers would have to buy these cheaper cars illegally – which would have severe negative consequences in case of liabilities and their warranties. Hence, in the case of emissions standards regulations are self-enforcing (and thus do not require effective state enforcement in order to be effective).

10 See www.kimberleyprocess.com/ (last accessed 25 June 2011); cf. Kantz 2006; Paes 2005.

our argument that brands gain a competitive advantage vis-à-vis competitors if they engage in strict collective regulation.[11]

The De Beers case stands out from other mining companies concerning the role of consumer confidence. However, the mining industry in general provides clear evidence for our argument that campaigns by transnational NGOs and local community-based organizations against violations of CSR norms can impose reputational costs on companies. These do not need to work through consumers' shopping decisions. The public shaming of companies may as well result in falling stock market prices and shareholder criticism. Mining companies under attack have sought to pacify critics through the adoption of high self-regulatory standards and an ostensive commitment to CSR (Hönke and Kranz forthcoming). Among the companies operating in South Africa, large global companies such as BHP Billiton and Anglo American, and companies that were targeted by a human rights campaign, such as Anglogold Ashanti (AGA), take the lead in the Social Responsibility Index of the Johannesburg Stock Exchange.[12] While the medium size company Anglogold Ashanti comes second in the 2010 ranking, other small and medium-sized companies score less well.

Many of the smaller companies operating in South Africa, however, are "followers" at best, or do not participate in the discourse at all. An increasing number of medium and small mining enterprises have emerged in the course of the industry's restructuring process. They are mostly subcontracting firms supplying technical assistance and machinery or exploratory services to larger companies. They do not have the historical legacy of apartheid complicity and are much less visible and thus are not likely to be targeted by transnational campaigns. They populate the more risk-friendly business segment of the mining industry (Malherbe 2000; Szablowski 2007).[13] Anglogold Ashanti is an exception in this regard. The medium-sized gold mining company has become a leader in

11 The Kimberley scheme involves states so that some may argue that it should not be seen as a functional equivalent to the state. That would be a misunderstanding of our argument. We hold that social mobilization and market incentives served as functional equivalents to the state's 'shadow of hierarchy' in making De Beers engage in governance with regards to its operations in areas of limited statehood.

12 See www.jse.co.za/Products/SRI.aspx and the 2010 ranking: www.jse.co.za/About-Us/SRI/Results/2010Results.aspx (last accessed 12 June 2011).

13 Interview with the deputy directors environment/DME, Pretoria, 27 March 2007; interview with a consultant and lecturer/School of Mining Engineering at the University of the Witwatersrand, Johannesburg, 20 March 2007; interview with the environmental manager/BHP Billiton, Witbank, 26 November 2007.

engaging in human rights and security-related CSR.[14] This can be traced back to a major campaign against the firm's operations in Eastern Congo. AGA was accused of complicity with the rebel group FNI[15] who used to control the region in which it holds its concession. The case became central to international NGO campaigns urging regulation against companies fuelling conflict.[16] Other medium-sized companies, such as Goldfields or FQML, do not engage in governance as much. They have not been targeted by shaming campaigns.[17]

We also find ostensive sector-wide governance activities by mining companies. This is in line with our argument that pressure to engage in CSR can also emanate from peers who are concerned that "one rotten egg spoils the entire cake", i.e., the reputation of an industry sector. Why should companies go beyond implementing individual standards to restore their reputation in response to a campaign? Reputation in the mining industry – and the level of threat of regulation – is often not company-specific but a collective issue (Hönke forthcoming-b; Prakash 2005; Szablowski 2007; Hönke and Kranz forthcoming). This points to our argument that the threat of external regulation (external "shadow of hierarchy") is another functional equivalent to the state's "shadow of hierarchy". The mining industry has faced extensive criticism for its negative impact on the environment, especially in developing countries. Extractive industries are high-impact industries: they leave a large negative footprint on the local environment and often have detrimental effects on social relations and security (negative externalities). In addition, they extract non-renewable resources and are thus an extremely unsustainable industry. There is a particularly high number of transnational campaigns (e.g., PWYP, by GW, HRW, Friends of the Earth etc.) and regulatory attempts of the industry (see in particular the

14 AGA ranks second on the high-impact industries best-performers list of the Sustainable Investment Index 2010 of the Johannesburg Stock Exchange, www.jse.co.za/About-Us/SRI/Results/2010Results.aspx (last accessed 20 June 2011). The company has become a member of the VPs in 2007. See AGA's global security strategy and the reporting on the VPs: www.anglogold.co.za/Sustainability/Other+public+reports/ (last accessed 28 June 2011). Interviews with the manager community relations and social development/AngloGold Ashanti Ltd., Johannesburg, 3 October 2007.

15 Nationalist and Integrationist Front (FNI).

16 HRW 2005.

17 Both are not members of the Voluntary Principles of Security and Human Rights. Internal policies on security and human rights are weak and/or little implemented in practice (see www.goldfields.co.za/sus_reports.php and http://www.first-quantum.com/s/Social.asp?ReportID=134525 (last accessed 25 June 2011)); interview with a manager/Golf Fields Protection Services, Johannesburg, 29 November 2007; interview with the regional security manager/FQML, Ndola, 26 October 2007. See also Hönke forthcoming-b.

debate about the UN Norms until 2003, initiatives for home state regulation in the UK, Canada, the EU, the US).

While smaller companies can free-ride on the positive image produced by CSR-activities of major companies, the entire sector suffers reputational damage when any mining company in any country gets under fire. This damage in many instances materializes in a decline in credibility in the financial markets and in a looming threat of stricter regulation by states that have the necessary enforcement capacities. In order to counter increasing public pressure, the industry has come up with a number of initiatives, not only at the company level, but also in the form of collective business responses at the transnational level. There are a number of transnational, sector-specific CSR initiatives.[18] In 1999, for instance, nine of the largest mining companies closed ranks to form the Global Mining Initiative (GMI), presenting the industry as committed to environmental principles and standards. In preparation of the World Summit of Sustainable Development in Johannesburg in 2002, a comprehensive consultation and research program was initiated; the Mining/Metals and Sustainable Development process (MMSD). It resulted in the development of state of the art sustainability policies within the industry, amongst others in the Southern African region. The International Chamber of Mines and Metals (ICMM) was created to coordinate the approach of the industry's global players towards issues such as sustainability, human rights or social development. It developed a common global reporting standard for the industry, the Sustainable Development Framework (SDF).[19] Membership in the ICMM obliges companies to report according to the SDF framework. These developments build evidence for our argument that shaming campaigns do in fact prompt companies to engage in CSR. In addition, they can unleash market pressure and increase the threat of state regulation for an entire industry, inducing mining companies to engage in sector-wide governance initiatives.

We also find support for the "shadow of anarchy", the third functional equivalent to the "shadow of hierarchy". The South African automotive industry strongly relies on skilled labor and heavily invests in the training of employees. These investments, however, are threatened as a consequence of the HIV/AIDS pandemic in South Africa. Estimations are that between 15% and 20% of the

18 Voluntary Principles on Security and Human Rights (2007), Kimberly Process Certification Scheme (KPCS 2007), Extractive Industries Transparency Initiative (EITI 2007), Initiative for Responsible Mining Assurance (IRMA 2007), International Council on Mining and Metals (ICMM 2007).

19 Following the MMSD process, the former transnational mining association ICME was transformed into the ICMM, charged with carrying forward the GMI agenda. See www.icmm.com (last accessed 5 January 2011) for further details.

population in the sexually active age group has contracted the virus.[20] Sick leaves, lower productivity, and social conflict associated with the disease can undermine the profitability of the investment in skills. Empirical studies have shown that this risk is a sufficient incentive for firms that invest substantial resources into the training of employees to engage in HIV/AIDS workplace programs and comprehensive health care provision (Thauer 2010, 2012 [forthcoming]).

In addition to such in-house workplace programs, automotive firms also reach out to the industry as a whole and to state institutions to contribute to a generally healthier labor force in the country.[21] More specifically, Mercedes Benz in East London, VW and General Motors in Port Elizabeth and Uitenhaage, BMW on the outskirts of Pretoria as well as Toyota in Durban run projects with local as well as nation-wide business associations and local public health institutions (schools, clinics, hospitals) that are directed at raising awareness of the disease in the population, publicizing preventive measures such as condom use, and improving health care services for those who have contracted the virus (for example, through the training of nurses and doctors in local clinics on the specifics of HIV/AIDS treatment). Why do these firms engage in public health care provisions and programs that reach out far beyond their own workforce?

In line with our argument about the "shadow of anarchy", the business model of these companies heavily features the provision of public health. As the state in South Africa proves neither willing nor capable of addressing the HIV/AIDS pandemic effectively, these companies decided to organize the production of this common good by themselves, not only individually but also collectively. On the global level, many of these companies engage in the World Economic Forum Global Health Initiative (GHI) and the Global Business Coalition on HIV/AIDS and other communicable diseases.[22] Nationally, they work with the South African Business Coalition against HIV/AIDS (SABCOHA), Business Unity South Africa (BUSA) and NAACAM, the National Association of Automotive Component Manufacturers, which organizes the suppliers of these big MNCs. On the local level, where their main focus of activities lies, companies initiate many projects with local chambers of commerce. All of the major South African car companies

20 According to Unicef "estimated adult prevalence rate (aged 15-49) in 2007 is 18.1%". www.unicef.org/infobycountry/southafrica_statistics.html (last accessed 5 January 2011).

21 Ibid.

22 Interview with CEO/NAAMSA, Pretoria, on various occasions in 2007; interview with CEO/NAACAM, Johannesburg, September 2008; interviews with CEOs and production managers of various suppliers, Rosslyn, Brits and Bellville, March and September 2007; interview with automotive expert, Durban, October 2007. See also www.naamsa.co.za (last accessed 5 January 2011) for reports.

are actively involved in association work on the issue of HIV/AIDS. Associations help them push workplace programs onto their supply chains, which they usually share. Hence, the reason for coordination in associations is efficiency gains rather than mitigating free-rider problems.

The case of mining is similar in the sense that De Beers, Anglo American and others have been pioneers in fighting HIV/AIDS beyond the workplace. Yet, the reasons for this engagement are different from those of the automotive industry. Trade unions played a key role in pushing companies towards adopting a comprehensive and non-discriminatory HIV/AIDS policy in the South African mining industry (Hönke forthcoming-a). Having identified HIV/AIDS as an economic risk as early as the 1980s, the mining industry initially enacted a discriminatory policy and excluded infected employees. Opposed by the labor movement, which has been a close political ally of the ANC, the new ANC government interdicted such practices. Post-apartheid labor regulation in South Africa effectively changed the cost calculation of firms in the field of health: newly designed labor regulations now prohibit mandatory testing and automatic dismissal due to an HIV infection. Furthermore, companies are bound to guarantee the same pension and home-based care benefits to early retired HIV-positive workers and dependents of deceased workers as to everybody else (Mahajan et al. 2007). In 1991, companies signed an agreement with the National Union of Mineworkers; in 2003 another agreement between the Chamber of Mines and the trade union guaranteed health care arrangements for dependents. Overall, public pressure, normative change and reputational concerns were crucial incentives for mining firms to tackle the issue of HIV/AIDS. Reputational concerns in this regard are connected to the widespread negative perception of mining companies in South Africa, which is not only related to the companies' discriminatory behavior in the past. Rather, their migrant labor system is seen as a major cause for the HIV/AIDS pandemic in Southern Africa (Fourie 2006). Cross-functional engagement in development and health programs that address the pandemic is a response to these concerns.

Overall, the rationale of companies for taking collective action on the problem of HIV/AIDS is highly problem-oriented. Fighting HIV/AIDS and thus contributing to public health is a highly coupled task and cannot be fulfilled by companies alone. The employees of the companies we analyze live their private lives outside the factory gate. This private sphere, in which employees confront the greatest risk of contracting HIV/AIDS, lies beyond the control of any individual company. Workplace programs alone are thus not sufficient to address the problem of HIV/AIDS. It takes collective action within associations, but also with state agencies and NGOs. This finding partially disconfirms the causal logic of our "shadow of anarchy" argument. However, it is, in line with the argument that the solution of complex tasks requires a minimum of statehood (see below).

3.2 The collision of limited statehood and governance

The case of the automotive industry demonstrates that while functional equivalents can make MNCs engage in CSR, it still requires the involvement of the state for CSR to contribute to governance. Where companies are not particularly concerned about reputational losses – for example, because they lack a brand name – the state becomes an addressee of the demands of transnational advocacy networks to put political pressure on companies to change their behavior. The case of a Cape Town-based large chemical fibre producer for the tyre industry is illustrative in this respect.[23] In the 1990s, the firm was heavily polluting the environment and surrounding neighborhoods suffered heavily from industrial fallout, effluents, uncontrolled hazardous waste disposition and emissions. Local neighborhood organizations stood up against this kind of unrestrained pollution, and teamed up with other NGOs and support groups (Héritier et al. 2009). The resulting public "shaming" campaign alone, however, did not have much impact on the fibre company since it does not have any end-consumer business. Recognizing their failure, the NGOs changed their strategy and redirected their pressure to local members of parliament and to the municipality, demanding state authorities to regulate the company more effectively. The company had existed in Cape Town already before most of the relevant environmental regulations were in place. Hence, changes could not simply be legally forced upon the company, but had to be negotiated. The state delegated negotiations back to the NGOs, but remained in the background, threatening the company with new (applicable) regulation or a generally unfriendly business environment, should it not engage constructively in the negotiations with the NGOs. This "shadow of hierarchy" helped to bring about the Belleville Environmental Forum, which is considered to be a model of dealing with environmental conflicts in South Africa.[24]

The Belleville Environmental Forum resolved the conflict of the firm with the local NGOs. Through the negotiations, the firm gradually reduced its pollution level up to the point that it is now in the process of ISO 14001 certification. Moreover, interactions within the forum changed over time. While participants describe the atmosphere as overtly hostile in the beginning, the parties to the negotiation warmed up to each other over time and some unusual alliances were

23 Interviews with the managing director, a union representative, the environmental manager and various floor managers/chemical fiber producer (anonymized), Bellville, 30 March 2007; interview with a Manager/TEXFED:, Johannesburg, 21 March 2007.
24 Ibid.

formed.[25] Having implemented many changes in its production processes, the firm started to actively sponsor the forum in order to make other firms – and especially competitors – engage in environmental pollution reduction, too. Once again, we find that race to the top dynamics can be triggered even under conditions of rather limited statehood.

The case of the automotive industry also demonstrates that a degree of statehood is necessary if the organization of governance is a highly coupled task. As shown above, automotive firms have a genuine interest in contributing to the fight against HIV/AIDS given their high investments in skills development and training. In light of the high interdependence of various actors in their attempt to find a solution to the problem of HIV/AIDS, these companies decided to reach out to the industry as a whole via associations and state agencies by means of public-private partnerships to contribute to a generally healthier labor force in the country. Mercedes Benz in East London, VW and General Motors in Port Elizabeth and Uitenhaage, BMW on the outskirts of Pretoria as well as Toyota in Durban run projects with local as well as nation-wide business associations and local public health institutions (schools, clinics, hospitals) that are directed at raising awareness of the disease in the population, publicizing preventive measures such as condom use and improving health care services for those who have contracted the virus (for example, through the training of nurses and doctors in local clinics on the specifics of HIV/AIDS treatment).[26]

Two main motivations drive firms in their attempts to strengthen statehood through such public-private partnerships. Firstly, they understand that HIV/AIDS is as much a societal problem as a disease and can therefore only be tackled effectively through collective action of all relevant actors. Secondly, in the field of HIV/AIDS abatement, weak statehood is a significant obstacle to private initiatives to fight the disease. HIV/AIDS workplace programs are highly problematic if the state cannot guarantee that patients will be taken care of by public health institutions in case a firm decides to let staff go or if it moves away.[27] More precisely, extending these programs to full antiretroviral medication provision is problematic if there is no medical scheme for employees who loose their job. This bears

25 Interviews with the managing director, a union representative, the environmental manager and various floor managers/chemical fiber producer (anonymized), Bellville, 30 March 2007.

26 Interview with the CEO/NAAMSA, Pretoria, February 2007; interview with the CEO/NAACAM, Johannesburg, September 2008; interviews with the health- and corporate affairs managers of various automotive producers, Rosslyn, East London and Port Elizabeth, February and September 2007; interview with an automotive expert, Durban, October 2007.

27 Ibid. See in addition the interview with the health expert/Border Kai Chamber of Commerce/Daimler Trust, East London, September 2007.

the danger that persons who contracted AIDS develope resistancies towards antiretroviral medication.

The field of the environment provides further examples of the necessity of statehood for CSR activities that contribute to governance when dealing with coupled tasks. The big MNCs in the automotive industry are generally all ISO 14001 certified. Hence, they operate on relatively high environmental standards. However, ISO 14001 is in essence a management system which prescribes procedural rules. The level of substantive – that is, pollution limiting – standards in which this management system is embedded can vary. At a minimum, ISO 14001 requires that a company implements the legal prescriptions prevailing in the country where its operations take place to be certified. In many areas, environmental regulation is a highly complex and coupled task to fulfill:[28] National guidelines may exist, but they have to be applied at the local level, and for that it takes an active state which is capable of setting these standards. Often, however, we find that the state is not able to fulfill this basic function – as, for example, in East London, where a big German automotive MNC was confronted with the situation that it had to undergo ISO 14001 certification without knowing its effluent, emission and waste deposition limits. As a result, certification almost failed, and the company found it impossible to formulate an appropriate CSR policy.[29]

Difficulties in implementing the elaborated South African Water Act provide an example for how weak statehood can hinder compliance of mining companies with CSR. The act requires companies to reapply for new water licenses, which requires them to go through a complex procedure involving a comprehensive Environmental Impact Assessment. The department's own capacities have proven to be weak in dealing with the large number of applications combined with the ambitious requirement of the act itself. Due to the slow bureaucratic procedures and the lack of monitoring and enforcement capacities of the government, mines used to operate without having a water license. Even though the claim of the Chamber of Mines that large companies were in danger of disqualification from ISO 14001 seems to be exaggerated,[30] the issue of legal compliance is a recurrent issue of debate during ISO audits.[31]

28 Certification officer/SABS (South African Bureau of Standards), 12 September 2007, Pretoria.

29 Interviews with the environmental-, the occupational health and corporate social responsibility managers/high-end market firm 2 (anonymized), East London, 26 February 2007.

30 Interview with the environmental adviser/Chamber of Mines, Johannesburg, South Africa, 16 March 2007.

31 Interview with the manager sustainable development/AngloPlatinum, Johannesburg, 20 November 2007.

Besides the need for a minimum of statehood in the host state in order to successfully implement and sustain CSR that contributes to governance, the state also plays an important role in a number of transnational multi-stakeholder initiatives set up to address governance problems. The Voluntary Principles of Security and Human Rights (VPs) were initiated by the US and UK governments together with US and UK companies.[32] As for the Kimberley process, NGOs and external state actors are instrumental in setting up such regulatory initiatives. Involving host states is crucial though. Successful implementation of the VPs requires the support of host governments that cooperate controlling police and military and improving their compliance with human rights standards (Börzel and Hönke 2011). The Kimberley process depends even more on a minimum of willingness and capacity of diamond-exporting states to implement the certification scheme. Participant countries are required to put in place national legislation and institutions to monitor the scheme.[33]

Summing up, we find functional equivalents to the "shadow of hierarchy" that make companies engage in CSR that contributes to governance in areas of limited statehood. Whereas statehood can be substituted by other mechanisms that incite CSR activities, a limited degree of statehood is still required to turn these CSR activities into effective governance contributions. Statehood is particularly necessary when MNCs are immune to reputational concerns, governance tasks are coupled, and the "shadow of hierarchy" is to be cast externally.

3.3 The "dark side" of statehood

While statehood is often needed for CSR contributions to governance, its presence can also have the reverse effect. This is in particular the case in complex-task areas in which effective governance would require the co-production of collective goods by business' CSR engagement and state provision of services and basic infrastructure. Yet, in the complex-task area of HIV/AIDS the state has used its limited capacities to prevent companies from combatting the pandemic in South Africa. In their fight against the HIV/AIDS pandemic in the area of Durban in the 1990s and early 2000s, MNCs, together with the Global Fund, the local municipality and the local chamber of commerce, initiated a public-private partnership for HIV/AIDS prevention and comprehensive treatment. It was to be rolled out

32 See www.voluntaryprinciples.org (last accessed 25 June 2011).

33 See the requirements in sections II, V a and VI 8, 9 of the Kimberley Process Certification Scheme (KPCS), www.kimberleyprocess.com/documents/basic_core_documents_en.html (last accessed 25 June 2011).

throughout the local business world and from there on to society.[34] However, the central government, fearing agency loss and threat to its sovereignty, insisted to take full control over the budget and content of the project right before it started. In light of the erratic stance of the then national government towards the pandemic and its obvious failure to respond to it effectively, its insistence on controlling the partnership de facto meant its ending, as it forced the partners of this project to withdraw. This case illustrates that in emerging markets, the state may be weak, unwilling or incompetent in some specific issue areas, but it is often still strong enough to break up governance structures on the local level and maintain control and authority over local governments and private actors. Even where statehood is more limited, such as the Democratic Republic of Congo, the state does prevent companies from CSR contributions in salient issue areas in particular when these are considered to threaten state sovereignty. When Freeport MacMoRan and Anvil Mining wanted to conduct human rights training for the state police forces the firms worked with, a requirement of the Voluntary Principles of Security and Human Rights, they were refused to do so. Such training was perceived by state authorities as undermining their authority and state sovereignty (Börzel and Hönke 2011). In politically salient and contested issue areas, local private and public-private governance initiatives may thus be threatened by statehood. Overall, if the goals of CSR contributions are not in line with government position, states will rather obstruct than support them.

Apart from an overtly destructive role of statehood in the governance of contested issue areas, we also find examples of "neopatrimonial collusion" that affect the quality of governance contributions by CSR (Hönke, forthcoming-b; Hönke and Thomas 2012). Fighting HIV/AIDS, MNCs in South Africa try to reach out to local governments. As mentioned above, medical treatment programs for employees presuppose an agreement with the local public health care institutions to take care of employees who are let go by the company.[35] In exchange for this guarantee, MNCs usually offer to extend their HIV/AIDS workplace program to parts of the local community. In East London, the government insisted on a highly exclusive deal: In exchange for the guarantee to take care of former employees of an MNC, the health department demanded to have its *own* employees enrolled in

34 Interviews with CEO/Durban Chamber of Commerce and Industry and Durban Chamber Foundation; interviews with various health managers of automotive firms in Durban 2007 and 2008.

35 Interview with the CEO/NAAMSA, Pretoria, February 2007; interview with the CEO/NAACAM, Johannesburg, September 2008; interviews with the health- and corporate affairs managers of various OEMs, Rosslyn, East London and Port Elizabeth, February and September 2007; interview with an automotive expert, Durban, October 2007.

the company's workplace program.[36] This is certainly a case where the attempt of a MNC to contribute to a common good was transformed by the government's neopatrimonial habits into an exclusive club good. The MNC offered to take relatively poor persons from the neighboring townships on board of its program, which would have made a contribution to an improved local public health situation. Instead of persons who otherwise have no access to health care, now government officials who are relatively well off and could afford private insurance benefit from the program of the MNC.

Even though "neopatrimonial collusion" might be less a problem in South Africa than in other countries, evidence from the mining sector in the field of security supports the argument that at the local level of implementation such collusion between local administration and companies may lead to exclusive governance contributions. However, this process is not only driven by state actors (Hönke forthcoming-b). Mining companies concentrate state and non-state security capacities in the areas in which their operations are located; their in-house security services cooperate with private security companies and the South African police. The outcome of these security arrangements is, however, exclusive. Security is provided as a club good with negative effects on poor neighboring communities. While bound to common good provision, the police are drawn into such arrangements and concentrate their activities on lucrative cooperation with the companies. Companies cannot police on their own, as much as some of them would like to; a mine security agent explains that "[Y]ou know we were policemen and we knew we could do it"[37], but companies are legally obliged to rely on the police for a number of activities, such as making arrests, taking fingerprints, preparing a docket and opening a case in court. Therefore there is engagement with the police: "You support them because you have to rely on them".[38] As part of their cross-functional CSR engagement in local communities, the mining companies engage in building the capacities of some local police stations to enable them to govern security in the mining area. However, they restrict this support to priority areas, with "those [police stations] which have the most direct impact on you", and with regard to those functions "which you can't do and for which you are relying on the police".[39] Mining companies provide material resources to

36 Interview with the occupational health and corporate social responsibility manager/high-end market firm 2 (anonymized), East London, 26 February 2007.
37 Interview with company security manager/platinum mining company (anonymized), Johannesburg, 14 December 2007.
38 Ibid.
39 Ibid.

these selected stations, such as vehicles or satellite police stations, or let them use their vehicles.[40] Such CSR engagement is selective in its geographical, social and functional scope. Selectively building state capacities thus translates into nodes of security governance that provide security as a narrow club good.

The consensual collusion of MNC branches with host political authorities also takes place with non-state actors at the subnational level and undermines CSR that contributes to inclusive collective goods provision in similar ways.[41] We found evidence in the platinum mining area that is partly under the jurisdiction of the traditional authority of the Royal Bafokeng in South Africa's North-Western Province. Impala Mining operates in this area in a joint venture with the Bafokeng traditional authority. Impala's operation was opposed by the small community of Luka when it wanted to open a new shaft in the community's neighborhood in 2003. Luka residents complained that they would not benefit from the mining project. Teaming up with the conservative leadership of the Royal Bafokeng, Impala was able to bypass and ignore criticism of its negative environmental impact upon the Luka community, which is within the Bafokeng area, just next to the mine. The Luka Environmental Forum that organized the protest is composed of young, critical, mostly non-Bafokeng members. They have been silenced and sidelined in the political process by Bafokeng authorities and Impala.[42] This case illustrates that "neopatrimonial collusion" can render community pressure ineffective and result in exclusive governance. It also shows that collusion took place because the protesting community was marginalized in the area and had no means to hold the Bafokeng authority accountable and responsive to its needs.

4 Conclusion

This article has shown that MNCs engage in CSR activities that contribute to governance even in areas where the state is too weak and often also unwilling to provide common goods. In light of the commonly held expectation that firms relocate production to such areas of limited statehood precisely because regulation is low and enforcement is ineffective this poses an important puzzle: Why

40 Interviews with researcher/Business Against Crime, national office, Johannesburg, 23 March 2007 and July 2007; interview with a local manager/auditing firm managing social investment projects of a mining company (anonymized), Rustenburg, 3 December 2008.

41 For more on subnational collusion see Hönke forthcoming-b.

42 Interview with Luka Environmental Committee, Rustenburg, 8 October 2008; interview with Rustenburg Environmental Coalition (RECO) and ex-Bafokeng-Councilor, Rustenburg, 9 October 2008.

would firms that are committed to CSR invest in areas of limited statehood in the first place?

We argue that investment decisions follow similar rationales as the engagement in CSR and governance in areas of limited statehood. Firms seek to make profit. Areas of limited statehood provide business opportunities, particularly if they host emerging economies with strong growth rates and a great market potential (such as the BRIC states). Having a production site in a country gives firms access to markets that are often protected by trade restrictions and also yields reputational gains with potential local costumers. Moreover, many MNCs had already invested in areas of limited statehood before they subscribed to CSR; in these and other cases operating in an area of limited statehood provides an important incentive to engage in CSR to avoid being accused of engaging in a "race to the bottom". Such reputational concerns are crucial for making MNCs engage in CSR activities that contribute to governance in the normative environment of the post-cold war era, which has confronted especially highly visible multinational companies with much public attention and pressure. Extending CSR activities beyond the corporate purview contributing to governance in areas of limited statehood is subject to the same cost-benefit-calculations. Beside reputational concerns and competitive advantages, the absence of any state provision of governance and an external "shadow of hierarchy" cast by home-country states or international organizations can substitute for the incentives generated by the threat of state intervention that is often not credible in areas of limited statehood.

Yet, these functional equivalents to the "shadow of hierarchy" still require the involvement of the state to make MNCs contribute to the broader common good in many areas if CSR activities are to reach beyond the purview of MNCs. This is particularly the case where MNCs are immune to reputational concerns – the threat of state regulation is necessary to make companies engage in CSR providing governance. Statehood is also required where governance tasks are complex and coupled.

At the same time, statehood may also be an obstacle rather than a facilitator for CSR governance contributions. While being too weak to set and enforce collectively binding rules for the provision of common goods and to provide these goods, respectively, state actors can invoke their legal authority to prevent MNCs from contributing to governance in contested issue areas or make CSR activities serve their own political and economic interests rather than the public good. Especially firms little concerned with reputation or public pressure may benefit from and encourage such behavior. These dark sides of statehood should caution against any conclusions that the state – if the capacities are given – will always make MNCs contribute to governance. This would reify the statist bias in parts of the governance literature that sees the state as the superior provider of governance (Rotberg 2003; Leibfried and Zürn 2005; for a critique see Brozus 2011). Unlike companies, the business of the state is to produce common goods. Yet, like companies, state actors need to be restrained and committed to the public interest by institutions and held publicly accountable to comply. These institutional mechanisms are often as weak as the capacity of the state to provide common goods and set and enforce collectively binding rules in the first place. Governance requires both responsible states and responsible companies. For areas of limited statehood, the institutions to hold governments and companies responsible are increasingly located at the international and transnational level, where the states are only one group of actors, albeit an important one.

Acknowledgements: The paper draws on findings of a four-year collaborative research project "Business and Governance in South Africa", conducted in the Collaborative Research Center (SFB 700) "Governance in Areas of Limited Statehood" (cf. http://www.sfb-governance.de/en/index.html). We would like to thank Kendra Dupuy, two anonymous reviewers, and in particular Aseem Prakash and Jennifer J. Griffin for extremely helpful comments on earlier versions of this paper.

References

Amengual, M. 2010. "Complementary labor regulation: the uncoordinated combination of state and private regulators in the domenican republic." *World Development* 38(3): 405–414.

Ammenberg, J. and O. Hjelm. 2003. "Tracing business and environmental effects of environmental management systems – a study of networking small and medium-sized enterprises using a joint environmental management system." *Business Strategy and the Environment* 12(3): 163–174.

Anton, W. R. Q., G. Deltas and M. Khanna. 2004. "Incentives for environmental self-regulation and implications for environmental performance." *Journal of Environmental Economics and Management* 48(1): 632–654.

Auld, G., S. Bernstein and B. Cashore. 2008. "The new corporate social responsibility." *Annual Review of Environment and Resources* 33: 413–435.

Bansal, P. 2005. "Evolving sustainability: a longitudinal study of corporate sustainable development." *Strategic Management Journal* 26(3): 197–218.

Bansal, P. and K. Roth. 2000. "Why companies go green: a model of ecological responsiveness." *Academy of Management Journal* 43(4): 717–736.

Barney, J. B. 1997. *Gaining and sustaining competitive advantage*. Reading, MA: Addison-Wesley.

Baron, D. P. 2003. "Private politics." *Journal of Economics and Management* 12(1): 31–66.

Blanton, R. G. and S. L. Blanton. 2007. "Human rights and trade: beyond the 'Spotlight'." *International Interactions* 33(2): 97–117.

Börzel, T. A. 2009. "New modes of governance and accession. the paradox of double weakness." In: T. A. Börzel (ed.), *Coping with accession to the European union. New modes of environmental governance*. Houndmills: Palgrave Macmillan, pp. 7–31.

Börzel, T. A. 2012. "How much statehood does it take – and what for?" *SFB Working Papers No.29; Sonderforschungsbereich 700, Freie Universität Berlin*.

Börzel, T. A. and T. Risse. 2010. "Governance without a state – can it work?" *Regulation and Governance* 4(2): 1–22.

Börzel, T. A. and J. Hönke. 2011. "From compliance to practice. Mining companies and the voluntary principles on security and human rights in the democratic Republic of Congo." *SFB Working Papers No. 25; Sonderforschungsbereich 700, Freie Universität Berlin*.

Börzel, T. A. and C. Thauer, eds. 2013. *Racing to the top? Business and governance in South Africa*. London: Palgrave.

Bowen, F., A. Newenham-Kahindi and I. Herremans. 2008. *Engaging the community: a systematic review*. Calgary: University of Calgary.

Brozus, L. 2011. "Applying the governance concept to areas of limited statehood: implications for international foreign and security policy." In: T. Risse (ed.), *Governance without a state? policies and politics in areas of limited statehood*. New York: Columbia University Press.

Chan, A. and R. J. Ross. 2003. "Racing to the bottom. Industrial trade without a social clause." *Third World Quarterly* 24(6): 1011–1028.

Cutler, C. A., V. Haufler and T. Porter, eds. 1999. *Private authority and international affairs*. Albany: State University of New York.

Deitelhoff, N. and K.-D. Wolf, eds. 2010. *Corporate security responsibility? corporate governance contributions to peace and security in zones of conflict*. Houndmills: Palgrave.

Draude, A. 2007. "How to capture non-western forms of governance: in favor of an equivalence functionalist observation of governance in areas of limited statehood." In *SFB 700 Working Paper No. 2*. Berlin: Freie Universität Berlin.

Epstein, M. J. 2008. *Making sustainability work. Best practices in managing and measuring corporate social, environmental and economic impacts*. Sheffield: Greenleaf Publishing.

Epstein, M. J. and M.-J. Roy. 2007. "Implementing a corporate environmental strategy. Establishing coordination and control within multinational companies." *Business Strategy and the Environment* 16(6): 389–403.

Eweje, G. 2005. "The role of mines in community development initiatives in developing countries. Corporate social responsibility at work in Nigeria and South Africa." *Business and Society* 45(2): 93–129.

Farrell, J. 2007. "Should competition policy favor compatibility?" In: S. Greenstein and V. Stango (eds.), *Standards and public policy.* Cambridge: Cambridge University Press, pp. 372–389.

Flanagan, R. J. 2006. *Globalization and labor conditions*. Oxford: Oxford University Press.

Flohr, A., L. Rieth, S. Schwindenhammer and K. D. Wolf. 2010. *The role of business in global governance. corporations as norm-entrepreneurs*. Basingstoke: Palgrave.

Fourie, P. 2006. *The political management of HIV and AIDS in South Africa.* Basingstoke: Palgrave.

Greenhill, B., L. Mosley and A. Prakash. 2009. "Trade-based diffusion of labor rights: a panel study, 1986–2002." *American Political Science Review* 103(4): 669–690.

Greenstein, S. and V. Stango eds. 2007. *Standards and public policy*. Cambridge: Cambridge University Press.

Halfteck, G. 2008. "Legislative threats." *Stanford law review* 61, (available at SSRN: http://ssrn.com/abstract=1113173).

Hall, R. B. and T. J. Bierstecker, eds. 2002. *The emergence of private authority in global governance*. Cambridge: Cambridge University Press.

Handley, A. 2008. *Business and the state in africa. Economic policy-making in the neo-liberal era*. Cambridge: Cambridge University Press.

Haufler, V. 2001. *A pulic role for the private sector – industry self-regulation in a global economy*. Washington, DC: Carnegie Endowment for International Peace.

Hellmann, J. S., G. Jones, D. Kaufmann and M. Schankerman. 2002. “Measuring governance, corruption, and state capture: how firms and bureaucrats shape business environment in transition economies.” In *Policy Research Working Paper*. Washington, DC: The World Bank Institute.

Hendry, J. 2006. “Taking aim at business.” *Business and Society* 45(1): 47–86.

Héritier, A. and D. Lehmkuhl, eds. 2008. “The ‘shadow of hierarchy’ and New Modes of Governance.” *Special Issue Journal of Public Policy* 28(1).

Héritier, A., A. Müller-Debus and C. Thauer. 2009. “The firm as an inspector: private ordering and political rules.” *Business and Politics* 11(4): Art. 2.

Hoffmann, A. 2001. *From heresy to dogma: an institutional history of corporate environmentalism*. Palo Alto, CA: Stanford University Press.

Hönke, J. 2012. “Multinationals and security governance in the community. participation, discipline and indirect rule.” *Journal of Intervention and Statebuilding* 6(1): 89–105.

Hönke, J. 2013. *Transnational companies and (in)security governance*. London: Routledge.

Hönke, J. 2013. “Between cause and cure. The mining industry and HIV/AIDS governance in South Africa.” In: T. A. Börzel and C. Thauer (eds.), *Racing to the top? business and governance in South Africa*. London: Palgrave.

Hönke, J. and N. Kranz. 2013. “Cleaning up their act, or more? Mining companies and environmental protection in South Africa.” In: T. A. Börzel and C. Thauer (eds.), *Racing to the top? business and governance in South Africa*. London: Palgrave.

Hönke, J., and E. Thomas. 2012. “Governance for whom? Capturing the inclusiveness and unintended effects of governance.” *SFB Working Papers; Sonderforschungsbereich 700 No.31, Freie Universität Berlin*.

HRW. 2005. *The curse of gold (Democratic Republic of Congo)*. New York: Human Rights Watch.

Kantz, C. 2006. “Logs and precious stones. The role of divergent corporate strategies in creating. Commodity tracking regimes.” Berlin: Berlin Conference on the Human Dimensions of Global Environmental Change.

Kaufmann, R. R. and A. Segura-Ubiergo. 2001. “Globalization, domestic politics, and social spending in Latin America: a time-series cross-section analysis, 1973–1997.” *World Politics* 53(4): 553–587.

Kollman, K. and A. Prakash. 2001. “Green by choice? Cross-National variations in firms’ responses to EMS-based environmental regimes.” *World Politics* 53(3): 399–430.

Ladwig, B. and B. Rudolf. 2011. “International legal and moral standards of good governance in fragile states.” In: T. Risse and U. Lehmkuhl (eds.), *Governance in areas of limited statehood.* New York: Columbia University Press.

Leibfried, S. and M. Zürn, eds. 2005. *Transformations of the state?* Cambridge: Cambridge University Press.

Lofdahl, C. L. 2002. *Environmental impact of globalization and trade. A systems study*. Cambridge, MA: MIT Press.

Lund-Thomson, P. 2005. “Corporate accountability in South Africa. The role of community mobilizing in environmental governance.” *International Affairs* 81(3): 619–633.

Mahajan, A. P., M. Colvinb, J.-B. Rudatsikiraa and D. Ettl. 2007. “An overview of HIV/AIDS workplace policies and programmes in Southern Africa.” *AIDS* 21(3): 31–39.

Malherbe, S. 2000. *A perspective on the south african mining industry in the 21st century*. Cape Town: Graduate School of Business of the University of Cape Town.

Mayntz, R. and F. W. Scharpf. 1995. "Der Ansatz Des Akteurszentrierten Institutionalismus." In: R. Mayntz and F. W. Scharpf (eds.), *Gesellschaftliche Selbstregulierung Und Politische Steuerung*. Frankfurt a.M.: Campus, pp. 39–72.

Mol, A. P. J. 2001. *Globalization and environmental reforms: the ecological modernization of the global economy*. Cambridge, MA: MIT Press.

Newell, P. J. 2001. "Managing multinationals. The governance of investment for the environment." *Journal of International Development* 13(7): 907–919.

Paes, W.-C. 2005. "'Conflict' diamonds to 'clean' diamonds: the development of the kimberley process certification scheme." In: A. Mehler and A. Basedau (eds.), *Resource politics in sub-saharan Africa*. Hamburg: Institute for African Studies, pp. 305–324.

Parker, C. 2002. *The open corporation: effective self-regulation and democracy*. Cambridge: Cambridge University Press.

Pattberg, P. 2006. "Private governance and the south: lessons from global forest politics." *Third World Quarterly* 27(4): 579–593.

Perrow, C. 1972. *Complex organizations: a critical essay*. New York: McGraw Hill Publishers.

Porter, M. E. and C. van der Linde. 1995. "Toward a new conception of the environment-competitiveness relationship." *Journal of Economic Perspectives* 9(4): 97–118.

Porter, M. E. and M. R. Kramer. 2002. "The competitive advantage of corporate philanthropy." *Harvard Business Review* 80(12): 56–68.

Potoski, M. and A. Prakash. 2005. "Green clubs and voluntary governance. Iso 14001 and firms' regulatory compliance." *American Journal of Political Science* 49(2): 235–248.

Prakash, S. 2005. "The effectiveness of industry-based codes in serving public interest. The case of the international council on mining and metals." *Transnational Corporations* 14(3): 55–100.

Prakash, A. and M. Potoski. 2006. *The voluntary environmentalists: green clubs, iso 14001 and voluntary environmental regulations*. Cambridge: Cambridge University Press.

Prakash, A. and M. Potoski. 2007. "Investing up: FDI and the cross-country diffusion of ISO 14001 management systems." *International Studies Quarterly* 51(3): 723–744.

Reno, W. 2001. "How sovereignty matters: international markets and the political economy of local politics in weak states." In: T. M. Callaghy, R. Kassimir and R. Latham (eds.), *Intervention and transnationalism in Africa: global-local networks of power*. Cambridge: Cambridge University Press, pp. 197–215.

Risse, T. 2011. "Governance in areas of limited statehood: introduction and overview." In: T. Risse (ed.), *Governance without a state? Policies and politics in areas of limited statehood*. New York: Columbia University Press.

Ronit, K. and V. Schneider. 2000. *Private organizations in global politics*. New York: Routledge.

Rotberg, R. I. 2003. *State failure and state weakness in a time of terror*. Washington, DC: Brookings Institution Press.

Rudra, N. 2002. "Globalization and the decline of the welfare state in less-developed countries." *International Organization* 56(2): 411–445.

Ruggie, J. G. 2004. "How to Marry Civic politics and private governance." In: Carnegie Council on Ethics and International Affairs. *The impact of global corporations on global governance*. New York: Carnegie Council on Ethics and International Affairs, pp. 10–15.

Schäferhoff, M. 2011. "Die Bereitstellung Von Gesundheitsleistungen in Räumen Begrenzter Staatlichkeit. Ist Der Staat Entbehrlich?" In: M. Beisheim, T. A. Börzel,

P. Genschel and B. Zangl (eds.), *Was Vom Staate Übrig Bleibt. Der Staatliche Beitrag Zu Governance*. Baden-Baden: Nomos, pp. 117–142.

Scharpf, F. W. 1997. *Games real actors play. Actor-centered Institutionalism in policy research*. Boulder, CO: Westview Press.

Schepers, D. 2006. "The impact of NGO network conflict on the corporate social responsibility strategies of multinational corporations." *Business and Society* 45(3): 282–299.

Smith, C N. 2008. "Consumers as drivers of corporate social responsibility." In: A. Crane, A. McWilliams, D. Matten, J. Moon and D. S. Siegel (eds.), *The oxford handbook of corporate social responsibility*. Oxford: Oxford University Press, pp. 303–323.

Spar, D. L. and L. T. LaMure. 2003. "The power of activism: assessing the impact of NGOs on global business." *California Management Review* 45: 78–101.

Stigler, G. 1971. "The theory of economic regulation." *Bell Journal of Economics and Management Science* 2(1): 3–21.

Szablowski, D. 2007. *Transnational law and local struggles: mining, communities, and the World Bank*. Oxford; Portland, OR: Hart Pub.

Thauer, C. R. 2010. "Corporate social responsibility in the regulatory void – does the promise hold? Self-regulation by business in South Africa and China. Phd Thesis." PhD diss., Florence: European University Institute.

Thauer, C. R. 2014. "Goodness comes from within. Intra-organizational dynamics of corporate social responsibility." *Business and Society*.

Trullen, J. and W. B. Stevenson. 2006. "Strategy and legitimacy: pharmaceutical companies' reaction to the HIV crisis." *Business and Society* 45(2): 178–210.

Tsai, L. 2007. *Accountability without democracy. Solidarity groups and public goods provision in rural China*. Cambridge: Cambridge University Press.

Tsai, L. 2011. "Friends or foes? Nonstate public goods providers and local state authorities in nondemocratic and transitional systems." *Studies in Comparative International Development* 46(1): 46–89.

Vogel, D. and R. Kagan, eds. 2004. *Dynamics of regulatory change: how globalization affects national regulatory policies*. Berkeley, Los Angeles: University of California Press.

Waygood, S. 2006. *Capital market campaigning. The impact of NGOs on companies, shareholder value and reputational risk*. London: Risk Books.

Wheeler, D. 2001. "Racing to the bottom? Foreign investment and air pollution in developing countries." *Journal of Environment and Development* 10(3): 225–245.

DE GRUYTER DOI 10.1515/bap-2012-0017 — Business and Politics 2012; 14(3): 1–31

Corporate Responsibility, Multinational Corporations, and Nation States

Michael Fichter*, Dimitris Stevis and Markus Helfen

Bargaining for corporate responsibility: The global and the local of framework agreements in the USA

Abstract: Global Framework Agreements (GFAs) are still a marginal topic in political and academic discourses over global governance and corporate responsibility. In functional terms, GFAs are a commitment to include global labor standards with respect to human resource management as part of this broader turn to CR. But to what extent are these intentions and goals actually realized? Are corporations able and willing to implement GFAs in a joint effort together with the unions across a vastly diverse range of institutional settings and national arrangements? And do GFAs have an influence on core elements of a company's business policy decisions? Drawing on the insights from an interdisciplinary and multinational project, this paper uses four case studies to explore the conditions and variations in GFA implementation in the USA. Although we observe, as have others before us, that key matters of business strategy such as investments, acquisitions, restructuring, or relocation are more centralized than corporate policies on labor relations, we provide some evidence that the implementation of GFAs can be moved forward by a confluence of external actor involvement and of corporate strategies motivated by a desire to streamline HRM practices (that include the goals covered by GFAs in their core business practices). This finding of the influence of external actor voice in implementation processes may also have broader explanatory power with respect to CR initiatives in general. And in theoretical terms it allows us to explore the interplay between macro structural explanations like the Varieties of Capitalism approach, and the strategic "micro-political" explanations. Our study, in fact, suggests a strong need to combine these in a more systematic fashion.

***Corresponding author: Michael Fichter,** Otto Suhr Institute, Free University Berlin, Ihnestr. 21, 14195 Berlin, Germany, Tel.: +49 30 803 2701/Mobile: +49 178 691 5847, Fax: +49 30 80402923, E-mail: michael.fichter@fu-berlin.de
Dimitris Stevis: Department of Political Science, Colorado State University, 200 West Lake Street, Fort Collins, CO 80523-1782, USA

Markus Helfen: Department of Management, School of Business and Economics, Free University Berlin, Boltzmannstr. 20, 14195 Berlin, Germany

1 Introduction

Global Framework Agreements[1] (GFAs) are still a marginal topic in political and academic discourses over global governance and corporate responsibility. But since the 1990s, Global Union Federations (GUFs), the international bodies of national sectoral unions, have negotiated more than 80 such agreements with multinational corporations.[2] These are mostly companies headquartered in Europe. Among them are such global players as Daimler, Bosch, EDF, GDF Suez, G4S, Securitas, ISS, Carrefour, and Telefonica. All are corporations with high-profile corporate responsibility programs and a pro-active policy of internationalizing their operations. In broad terms, then, GFAs are indicative of corporate leadership's acceptance of *global* labor policy as an element of Corporate Responsibility (CR) and of labor unions as legitimate actors in implementing this policy throughout the corporation and its global production networks.

But to what extent are these intentions and goals actually realized? Are corporations – along with their labor partners – able and willing to implement GFAs across a vastly diverse range of institutional settings and national arrangements? The emerging research literature suggests that there are serious problems of implementation, not only in less industrialized countries such as India[3] or Ukraine,[4] but also in the USA,[5] as one of the dominant powers in the world political economy. However, taking the USA as an example, we also find exceptions to the prevailing pattern of non-implementation which create an interesting puzzle. To explore this puzzle we use the bargaining model over governance regimes advanced by Levy and Prakash,[6] which situates multinational

1 Although the term "International Framework Agreements" is still more widely used, we have opted for "Global Framework Agreements" because this term has recently become the most recognized designation among the GUFs.
2 According to the UNI website, the ILO calculates that direct and indirect employment by MNCs is over 90 million people, a relatively small (ca. 5%) but strategically significant portion of the global workforce. http://www.uniglobalunion.org/Apps/iportal.nsf/pages/20090226_ml9xEn.
3 Gartenberg and Bandekar 2011.
4 Davies et al. 2011.
5 Fichter and Helfen 2011.
6 Levy and Prakash 2003.

corporations in a web of negotiations with multiple actors and at various levels. By focusing on the role of global and local actors, both internal and external to the MNC, we offer an explanation for the variety of outcomes in furthering new governance arrangements and opening paths of institutional formation and change in labor relations. While we endeavor to recognize the impacts of all the relevant actors involved, the thrust of our argument will be on whether and how transnational union collaboration leverages global management commitment to CR, expressed in the GFA, to promote local GFA implementation. In functional terms, then, this article sheds new light on the labor relations of MNCs, offering a different perspective on the internationalization of human resource management and the transfer of practices from HQs to subsidiaries. In broader terms it explores the role of agency and brings in the local[7] level in the shaping of global governance.

The paper begins by introducing GFAs. In addition to clarifying their origins we pay close attention to their potential impacts on the organization and policies of MNCs and their global production networks. However, as the emerging empirical literature recognizes there are serious implementation deficits. In the third part we turn to a concise review of the most plausible theoretical explanations rooted in the comparative capitalism literature.[8] While these macro institutional approaches may help us to understand broad patterns of corporate adaptation to local settings in the USA, they fail to explain variations which more recent empirical studies of GFA implementation in the USA have documented. To understand these deviations from the general or presumed pattern of MNC labor relations we draw on the bargaining model proposed by Levy and Prakash. This model allows us to link the transnational processes and dynamics of GFA negotiations to the practices of implementation at workplaces within particular local labor control regimes (LLCR). Through this linkage we are able to focus attention on the micro-politics of how actors operate within such local institutional settings while being open to understanding the impacts of transnational processes and dynamics. In particular, we explore how demands and strategies from headquarter-level actors, both internal and external to the MNC, shape such regimes to effect the fuller implementation of GFAs.[9] Part four of our presentation uses the structure

7 One term that may engender some confusion here is "local". In the literature the term is sometimes used to refer to the national and sometimes to the subnational levels. We use it here to cover both levels and insert national or subnational as necessary to ensure clarity. Such an effort is justified by the fact that national and subnational actors and institutions are often important players in our cases and in the transfer of practices, more generally.

8 Deeg and Jackson 2007.

9 Jonas 1996; see also Brown et al. 2010.

of the theoretical arguments to present our four case studies, revealing both similarities and important variations. In part five we consider the lessons that we derive from these cases and point to the kinds of transnational micro-politics to which our study contributes. In the final section, we draw a number of conclusions related to the themes of this special issue.

2 Overview and significance of GFAs

2.1 What are GFAs?

In formal terms GFAs are agreements between multinationals and Global Union Federations. The first GFA was negotiated in 1988 but it took another decade for the initiative to pick up steam. Starting in 2000 there was an acceleration of agreements. By the end of April 2012, 85 GFAs were operative.[10] Over 90% of them have been signed by one of four GUFs (BWI, ICEM, IMF, UNI).[11] As for the signatory corporations, 85% are headquartered in Europe, attesting to a European style of HRM policies and labor relations at the HQ level.[12]

Unlike unilateral Codes of Conduct[13] or multi-stakeholder arrangements,[14] GFAs are negotiated between corporate headquarters and representatives of organized labor. Although labor may be represented primarily by an internal employee representative body such as a European Works Council, or by a home country labor union at the negotiation table, the mark of a GFA is its signing by a Global Union Federation (GUF). In fact, one major reason why GFAs are practically and theoretically intriguing is that in agreeing to negotiate in good faith, MNCs extend "recognition" to GUFs as the legitimate representative of unions at the transnational level. GFAs are thus a reversal of MNC's historical refusal to negotiate with labor unions beyond the nation-state.[15] Labor's willingness, and indeed, its need to negotiate with MNCs at a transnational level is arguably an

10 For more details, see Papadakis 2011.
11 BWI: Building and Woodworkers' International; ICEM: International Federation of Chemical, Energy, Mine and General Workers' Unions; IMF: International Metalworkers' Federation; UNI: UNI Global Union. In June 2012, ICEM and IMF merged with the textile workers' union (IGTLWF) to form the new manufacturing GUF under the name of IndustriALL.
12 Preuss et al. 2009; Stevis 2010.
13 Waddock 2008.
14 Fransen and Kolk 2007.
15 Stevis and Boswell 2008: pp. 117–124.

important addition to its historically conditioned embeddedness in national (and in the case of the EU, regional) systems of labor relations[16] as well as an option for more collaborative global industrial relations.

As a joint labor – management statement of policy, a GFA is based on minimum labor standards and negotiated procedures. Although several GUFs have published model framework agreements, these have not become a recognized standard for all GFAs. Nevertheless, while each agreement embodies a corporation-specific outcome of negotiations,[17] the core labor standards[18] established by the International Labor Organization's 1998 *Declaration on Fundamental Principles and Rights at Work* are the bottom line of all GFAs. Of the four core labor standards of the ILO, freedom of association and the right to collective bargaining have proven to be the most contentious issues.[19]

The broader goal of GFAs is not global collective bargaining but, rather, global social dialogue. However, the intent of this dialogue is to encourage and facilitate unionization and collective bargaining at MNC subsidiaries (and to a limited extent at suppliers). Since collective bargaining outcomes are legally binding, they can create or modify national institutions and practices of labor relations and, by extension, the GFA itself. GFAs thus overcome the rather episodic nature of most consumer campaigns and the arbitrariness of unilateral codes of conduct. In their design they are at the interface of HRM and IR with the potential of modifying the boundaries of both of these concepts and practices and, more broadly, of CR.

While all of the MNC signatories to GFAs have well-designed and published CR programs, this alone does not provide an explanation as to why they have consented to negotiate and sign such an agreement. Far more MNCs have CR programs than have signed a GFA. However, research has pointed to institutional and strategic factors that are the source of wide-ranging differences in actual CR practices.[20] And as has been observed in regard to GFA negotiations, the spectrum of CR policies may range from a highly voluntaristic and instrumental approach, "in which commitment to CSR, including labor-related measures, is primarily aimed at risk reduction and issue management," to more sophisticated approaches in which a commitment to uphold labor standards is seen as being part and parcel

16 Logue 1980; Hyman 2004.

17 Fichter et al. 2011a.

18 The core labor standards refer to the prohibition of child labor (ILO co. 138 and 182) and forced labor (ILO co. 29 and 105), to non-discrimination and equal pay (ILO co. 100 and 111), and to freedom of association and collective bargaining (ILO co. 87 and 98).

19 Fichter et al. 2011b.

20 cf. Campbell 2007; Matten and Moon 2008; Griffin and Prakash 2010.

of the company's business strategy and model.[21] Further motives may be associated with the institutional and organizational strength of organized labor in the home country,[22] with an interest in internationalizing and standardizing HRM practices throughout TNC operations, with public accountability requirements,[23] or even in a few cases, as a result of confrontations, such as global or national campaigns.[24]

To be sure, any number of prominent MNCs have not signed a GFA although they match these criteria. Whether there is a distinguishable pattern of acceptance or rejection is a research question in need of closer attention. The relevant point for our paper is that the signing of a GFA is not a routine decision by CR minded corporations, despite the fact that some of the signatories see it as part of their CR strategy. It is an important decision that most corporations do not take lightly, and their reasons for negotiating agreements vary a great deal and can also shift over time. It is not surprising, therefore, that a number of business associations, think tanks and law firms have advised against signing GFAs as if they were a typical kind of CR.[25]

Attitudes towards GFAs also vary among unions. For many local unions and national affiliates of the GUFs, especially outside of Europe, the purpose and usefulness of GFAs is not self-evident.[26] A number of national unions are skeptical of the wisdom of pursuing recognition rather than more concrete commitments. On the other hand, home unions and employee representatives see GFAs as an extension of national and European industrial relations and a way to monitor the increasingly internationalizing MNCs.[27] But for the GUFs, framework agreements have become a policy tool for agenda setting and carving a niche in global labor governance for themselves above and beyond the priorities of the dominant affiliates. Whereas their earlier attempts during the late 1960s and 1970s, which sought transnational collective bargaining and targeted primarily US companies, failed,[28] their new approach around GFAs has sought social dialogue at more amenable European companies. Recognition as a legitimate bargaining representative regarding labor issues has been of prime importance for GUFs, a priority that can be seen as a contributing factor to accepting some agreements with weaker language.

21 Fichter et al. 2011a: p. 612; Stevis 2009: pp. 4–5.
22 Stevis and Boswell 2007, pp. 176–181; Egels-Zandén 2009.
23 Macaire 2001.
24 Hoffman 2008.
25 IOE 2007; ITC-ILO 2010.
26 E.g., Herrnstadt 2007.
27 Stevis and Boswell 2007: pp. 176–181.
28 Stevis and Boswell 2008: pp. 117–124; Northrup and Rowan 1979.

2.2 Implementation of GFAs

Given the variety of reasons why companies and unions have signed GFAs it is not surprising that they are not all the same. Our analysis of the agreements resulting from the negotiation phase of the GFA process[29] suggests three general categories. "Hollow" agreements are superficial in their implementation provisions as they do not set up strong mechanisms and, quite often, are vague about their goals. Moreover, management has done little to fulfill its implementation responsibilities. "Modifying" agreements tack implementation and monitoring tasks onto existing institutionalized labor-management relations at headquarters, extending the scope of activity of such bodies as European Works Councils or national Works Councils beyond their legal mandate. While in practice that may expand their position of influence vis-à-vis management, this concentration of GFA activity at headquarters can be detrimental to building actor capacity at other levels of the MNC and across the global production network. Finally, "creative" GFAs seek to establish new organizational arrangements that reflect the global scale and scope of these agreements.

Beyond the implementation procedures anchored in the GFAs, local institutional settings and local actors are key factors in the implementation process. Recent empirical studies, in fact, have pointed to the difficulties of implementing GFAs at the local level. In addition to local management's ignorance or opposition and global management's inactivity, a third key factor has been the paucity of cross-border union initiatives on behalf of activating the implementation and monitoring processes. Generally, local and global unions are challenged to develop their associational power, overcome institutional and legal deficits, and collaborate across borders.[30]

These insights are very relevant to the implementation of GFAs in the USA. The USA and NAFTA are prime investment targets for companies all over the world, but especially for those headquartered in Europe. Well before GFAs became a realistic prospect, research on European TNC policies in the USA found that these companies were prone to adopt host country practices that were considered to be advantageous[31] such as "avoiding union representation or circumventing collective bargaining altogether."[32] These findings are borne out by other empirical

29 Helfen, M. and J. Sydow. 2013. "Negotiating as Institutional Work: The Case of Labor Standards and International Framework Agreements." Organization Studies 34 (in print).

30 Descolonges 2009; cf. Davies et al. 2011; Fichter and Helfen 2011; Gartenberg and Bandekar 2011; Gregoratti and Miller 2011; McCallum 2011; Niforou 2011; Riisgaard and Hammer 2011; Robinson 2011.

31 Pudelko and Harzing 2007.

32 Cooke 2003: p. 69; see also Cooke 2001.

studies that include MNCs with GFAs.[33] The common thread here is that European MNCs often depart from their collaborative labor relations policy at home and are willing to actively avoid union recognition and collective bargaining – despite having negotiated and signed global agreements championing such standards.

Yet, despite the generally problematic implementation trend there is also enough evidence of (successful) efforts to render local practices consistent with the GFA. As a result, a number of companies have brought their local labor relations policies into line with corporate policy to be consistent with their GFA. These include ArcelorMittal, Dannon, G4S, H&M, IKEA, Lafarge, Rhodia, SCA and Securitas. The dynamics of such changes are the core puzzle of this article.

3 Actors, bargaining, institution building

How can we account for both the initial pattern and the diversity of outcomes? While we recognize the significance of existing and different institutional ensembles, we emphasize in particular the role of agency in the constitution, use and reconstitution of institutions.[34] Evidence that European companies, whether they have signed GFAs or not, adapt their labor policies to the predominantly liberal capitalist approach in the US when investing there seems to be consistent with the comparative analyses of capitalism such as Varieties of Capitalism (VoC) or national business systems. In the VoC approach, for example, labor-management relations and collective bargaining arrangements are basic criteria for judging how firms interact with their institutional and social environment. In our context, we are dealing mostly with MNCs from continental Europe and Scandinavia, i.e., coordinated market economies, that have invested in the US, the hallmark of a liberal market economy.[35]

However, we would agree that comparative capitalism approaches overlook the institutional variability at the regional and local level within countries.[36] Furthermore, the role of agency is largely underplayed in such explanations, overlooking the possibility of local actors interpreting and shaping their institutional environment in dynamic ways – not the least in their bargains and

33 Human Rights Watch 2010; Fichter 2011; Stevis 2011; Wills 2002.
34 Deeg and Jackson 2007; Lane and Wood 2009.
35 Hall and Soskice 2001.
36 E.g. Jackson and Deeg 2008; Streeck 2009; Almond 2011.

negotiations with each other – even to the extent of changing macro-level institutions.[37]

A further criticism of the comparative capitalism line of research centers on its neglect of the influences from and the interactions with transnational and global forces. In response other discourses have given considerable attention to cross-border institutional change, i.e., local change that is triggered, influenced and sometimes forced upon local actors through connections to globally operating organizations.[38] In particular, the approach which emphasizes the agency of micro-politics in cross-border institutional change is inextricably linked with the study of the institutional underpinnings of the MNC.[39] In this literature, it is explicitly acknowledged that institutions are adopted, translated, enacted or dropped through agency in headquarter-subsidiary relationships; and political dynamics, conflict and contestation among groups internal and external to the organization are emphasized as driving forces for institutional change. And yet, although delivering important insights into the organizational context of negotiations, these contributions not only bypass labor-management collective bargaining and the internal-external nexus of labor unions, they also neglect negotiations and their capacity to modify local interest positions and relax institutional constraints.[40]

The above insights are important to a fuller understanding of GFAs. As an emergent governance institution, GFAs are the subject of continuous bargaining – individually and collectively – both about their general goals and their specific provisions. Bargaining becomes even more complex during the implementation phase, as the mode becomes more "distributive"[41] and the number of actors increases exponentially. While during the negotiation stage the participants are largely limited to central managers for the MNC and one of organized labor's representative bodies (the GUF, one or more home country unions or a works council body), implementation adds similar actor constellations at subsidiaries (and suppliers) across the globe.[42] All of these separate national and local settings are subject to complex institutional dynamics of their own. For that reason we suggest that a bargaining model as proposed by Levy and Prakash has considerable theoretical utility and is consistent with the admonition of various authors

37 Thelen 2009.
38 Campbell, 2004; Geppert et al. 2006; Morgan and Kristensen 2006.
39 Geppert et al. 2006; Morgan and Kristensen 2006; Edwards et al. 2007.
40 Geppert and Williams 2006 are exceptional in this respect.
41 Walton et al. 2000.
42 Stevis and Boswell 2007.

that the interplay between agency and institutions across borders be given closer attention.[43]

Levy and Prakash map out an argument for targeting MNCs as "key actors in the formation of governance regimes and that corporate strategies play an important role in the trajectory of regime development."[44] They suggest that the complexity and dynamic nature of bargaining processes, with multiple actors attempting to exert leverage through various sources of power, leads to somewhat indeterminate bargaining outcomes. Their approach to bargaining over governance institutions – structures in their terms – "recognizes the multiparty nature of negotiations, multiple sources of power, and the complexity and dynamic nature of the bargaining process."[45] Levy and Prakash suggest that, at present, MNCs prefer global enabling regimes and local regulatory regimes. The deeper logic of their argument is that there is a strategic relationship between governance goals and location of authority. GFAs present an interesting test of this dynamic. While negotiated globally their implementation has to take place locally. This complicates the relationship between the goals of governance and the location of authority. While management prefers that agreements remain soft types of global CR, labor sees them as a prelude to local union recognition and bargaining and, thus, industrial relations.

Implementation brings the location of authority to the local level of subsidiaries and suppliers in the host countries. An approach that can capture this dynamic is what geographers have labeled "local labor control regimes." Jonas defines such "LLCRs" as a

> *historically contingent and territorially embedded set of mechanisms which coordinate the reciprocities between production, work, consumption and labor reproduction within a local labor market.*[46]

Building on this understanding of a labor control regime in a local context, Riisgaard and Hammer[47] conceptualize the injection of external conditions and actors via global production networks. Importantly, they emphasize the significance of labor as an actor, to which Rainnie, Herod and McGrath-Champ have added, that the

43 Tempel and Walgenbach 2007; Lane and Wood 2009.
44 Levy and Prakash 2003: p. 133.
45 Levy and Prakash 2003: p. 147.
46 Jonas 1996: p. 325.
47 Riisgaard and Hammer 2011.

> *governance of inter-firm linkages is mediated by the specific social relations of local production, as well as by the histories and geographical orientations of the actors involved (i.e., how local firms are spatially connected into the broader global economy). As a result, both production and labor control regimes will vary enormously across space.*[48]

3.1 Mapping institutions and agency

In order to better take advantage of any model that involves actors, institutions and bargaining at various levels it is necessary to map these elements. Drawing upon the analytical schemes offered by Brown et al.[49] and Cooke[50] we can map the agential and institutional parameters involved in the transfer of labor practices, thus giving more specificity to the bargaining model proposed by Levy and Prakash and the LLCR dynamics. These analytical schemes are essentially three-dimensional. Institutions and actors, the first dimension, range from more internal to more external to the firm and operate from the global to the local levels (see Table 1 below).

External institutions relevant to labor practices involve corporate governance rules and industrial relations at the home and host countries as well as the competitive landscape at all levels. One of the important factors that a number of authors have pointed to, and which we mentioned above, is the variability within

	Institutions	Actors
External	Corporate Governance (home and host) IR and CR system(s) (home and host) Competitive landscape (global, home and host)	Global (GUFs, home county unions, other national unions) Local actors (national and subnational states and societal entities) Local unions (national and subnational)
Internal	Organization of firm (global, home and subsidiaries) Culture of Firm (CR and GFAs) Function and locale of activities	Global management Global employee bodies Local management (national and subnational) Local unions and employee organizations (national and subnational) with contracts

Table 1: Parameters in the transfer of labor practices.

48 Rainnie et al. 2011: p. 162.
49 Brown et al. 2010.
50 Cooke 2008.

countries and across sectors. Global institutions and organizations are less relevant with the ILO providing a shadow of regulatory standards and the ISO poised to do the same with respect to CR.

Internal institutional arrangements, including labor union participation in decision-making, are central to understanding the global-local nexus precisely because the organizations we are dealing with are multinational companies. Analysts have pointed to the power and behavior of subsidiaries, largely related to the mode of expansion (merger, acquisition, greenfield investment), as important institutional factors[51] as well as to the function and locale of economic activities.[52]

CR, when it is actually implemented and internalized, can also be considered as an internal institutional arrangement as it changes the expectations of those working for the company as well as those interacting with it. Not only is CR contributing to the branding and legitimation of the company but it can also serve strategic goals, such as risk management and accountability.[53] GFAs can well serve both of these purposes, i.e., as a signal to the public and as a reference for workers and management. In this sense, GFAs may change the rules of engagement between management and unions.

The most significant external actors here are GUFs. A GUF's involvement brings with it that of its affiliates. Some of these affiliates may represent workers in the subsidiary, others may want to organize them and still others may be interested in broader developments in the sector or the GFA strategy as a whole. The GFA and the GUF, therefore, give workers and unions along the company's production and supply networks the right to pass judgment on the company's practices anywhere in the world. In short, they reconfigure the boundaries between the internal and external networks of the firm.[54]

Despite increasingly vocal arguments in favor of effective enabling or social regulation through supranational organizations, as far as MNCs go, little has been accomplished up to now. In contrast, there has been significant devolution of competition for investment to the subnational level. This is particularly evident in the USA where the federal state plays an indirect and/or discreet role in attracting capital.[55] States, regions and cities have been at the forefront of competition for attracting investment. The nature of the incentives varies from place to place but in many cases labor liberalization, provision and control are

51 Kostova 1999; Kostova and Roth 2002; Birkinshaw and Pedersen 2009; Almond 2011.
52 Crouch et al. 2009.
53 Kyle and Ruggie 2005.
54 Dicken 2011: pp. 121–122.
55 Cobb and Stueck 2005; Block and Keller 2011.

key selling points. Finally, on the actor side, managers at all levels are key internal players, as are unions and employee representative bodies – where present.[56]

4 Bargaining, change and diversity: The significance of global-local linkages

4.1 Data and methods

The data for our four case studies is taken from the larger context of an interdisciplinary and multi-country research project on the motivation for and the implementation of GFAs. In the project, three criteria were used in selecting MNCs for our case study interviews from an original sample of 73 GFAs (2009) to control for industry-specific characteristics, regional home/headquarter effects, and the global reach of the MNC: (a) The GFA has been signed by one of the four GUFs (BWI, ICEM, IMF, UNI) which account for over 90 per cent of all those in existence; (b) The MNC is headquartered in Europe (85% of all firms with GFAs), attesting to a European style of HRM policies and labor relations at the HQ level; (c) The MNC has subsidiaries in Brazil, India, Turkey and the USA.[57] These countries are among the top ten for direct foreign investment by MNCs with GFAs. Also, their systems of labor relations differ markedly and, we would argue, provide a critical test for the global standardization of labor relations.

This selection process yielded a group of 22 MNCs with a GFA. For 8 of these we currently have primary and secondary source material as well as interview data from management and labor, all of which extends from the headquarter to the subsidiary level in the four focal countries. Further, text analyses of the interview data together with the texts of 73 GFAs was conducted at headquarters level using academic software (Atlas.ti).

The four cases selected for this paper are taken from the completed eight cases mentioned above. Each represents a different sector with a different GUF involved.

56 Unions are autonomous from the corporation and generally have a range of membership that extends beyond a single corporation. As such we have dealt with them in this paper as external actors with legitimate internal concerns. Employee organizations, such as works councils, are considered internal because they are specific to the corporation and have some decision-making power. See Müller-Jentsch 2004.

57 Using our definition of GFAs, we count a total of 85 as of the end of April 2012. While we have not analyzed the newer GFAs as we did with the first 73 we have kept abreast of developments and can state with certainty that there has been no change in the patterns reported.

Most importantly, the four GFAs examined include a “hollow” (ResourceCorp), a “modifying” (MetalCorp) and two “creative” outputs from the negotiation phase of the GFA process (SecureCorp and ChemCorp). Three of these companies share an overall good record in terms of the global implementation of their GFA; the fourth (ResourceCorp) has been a laggard globally, making its recent policy changes in the USA worthy of closer scrutiny. Yet, even the three companies with good records differ in terms of their actual implementation practices across the four countries we have been researching and their practices are largely consistent with what we would expect from the nature of the agreement, i.e., the creative agreements tend to be implemented according to the agreement while the modifying one varies depending on the strength of local unions. In all four cases there have been noticeable to major discrepancies between the commitments of the GFA and practices in the USA.

5 The cases

The four mini-cases are structured in a similar fashion, starting from the most “hollow” agreement and ending with the most “creative.” While we provide enough information to offer a rounded profile we err in the direction of information that best allows us to explore the continuous bargaining processes involving management and labor unions at various levels. On the basis of this evidence we argue that transnational collaboration amongst unions is a necessary if not sufficient condition of success. A second condition that multiplies the impact of transnational collaboration is the degree to which management at the global level is compelled to engage unions either as a result of union pressure or because of the value it attaches to the GFA. All cases show clearly that host country factors and the mode of presence in the USA shape the foundation on which the GFA is implemented. In three cases a confluence of transnational union collaboration combined with management’s decision to honor rather than escape its GFA moved implementation forward. The fourth case (MetalCorp) confirms the significance of this confluence. While this company has been more responsive in countries where such transnational strategies put pressure on the company it has been unresponsive in the USA because key unions along the corporation’s production chain could not collaborate.

5.1 ResourceCorp

ResourceCorp is a medium-sized family owned transnational in the business of resource extraction and production of building materials. As indicated by its relatively high number of country locations (approx. 77) in combination with the relatively medium-sized number of employees (90,000), it operates a highly decentralized production network. Another thirty thousand workers are employed by sub-contractors for ResourceCorp. Three characteristics seem to be important for understanding ResourceCorp's business model: the intensive use of sub-contracting due to the high flexibility and low set-up costs of its root business process in resource extraction, the wide dispersion of its business operations including several countries with dubious human rights records, and its strategic turn to a management model based on a voluntaristic policy of environmental sustainability. According to the company, however, somewhat less than three-quarters of its employees have union representation and collective agreements.

The initiative for negotiating a GFA was taken by BWI as one of the responsible GUFs. Its success was the result of the informal personal channels of communication forged by the chief BWI negotiator at previous meetings of ResourceCorp's stakeholder council. Despite the prevalence of cooperative labor relations with the unions in ResourceCorp's home country, BWI and ICEM, which had joined the negotiations, had to overcome strong management resistance to concluding a GFA. ResourceCorp management continually harped on the need for the agreement to give preference to the host country laws on union recognition and collective bargaining over the core labor standards of the ILO. ResourceCorp's management also refused to jeopardize the economic benefits of outsourcing to business partners by extending agreed standards to suppliers. Moreover, management injected the legal argument that the company could not be held responsible for the policies of its subcontractors and suppliers, nor for those of its subsidiaries, which they designated as independent organizational units even where ResourceCorp was a majority shareholder.

In the end, it was partly a good personal relationship of one of the GUF representatives with the manager in charge of sustainability policy along with ResourceCorp's desire to get additional credibility for its CSR strategy and to keep alleged violations of labor standards an internal affair which broke the negotiation deadlock and led to the signing of the GFA in 2005. However, this strategy assigns only minor importance to labor-related issues. And indeed, since signing the agreement (2005) it has been a laggard in terms of its implementation, justifying the placement of this agreement in the "hollow" category.

ResourceCorp is one of the major players in North America, its third largest market, where it has grown via acquisitions. During the last decade it has sought to centralize its North American activities and place them more fully under the control of global headquarters. This, the company reports, has given it more leverage in sourcing. At the same time, the company has allowed its US subsidiary a great deal of independence in dealing with its employees. This fits well to central management's legal arguments during negotiations and bolstered US management's strong opposition to the GFA.

During 2008 and 2009 ResourceCorp got involved in two contentious issues with two different US unions at the local level. In one case the company sought to modify the health coverage of its employees while in the other it sought to prevent unionization by hiring a union-avoidance specialist. These practices, along with a number of other local conflicts, had created a hostile environment. The unions involved eventually decided that approaching global HQs about implementing the GFA in the US was a promising strategy (despite their misgivings about GFAs in general). To that end they organized a North American network to coordinate their actions towards this and other companies in the sector. In addition to their continental network, they also sought collaboration with global union federations as well as national European unions. In a concerted effort, they attended meetings of the company's board and asked the secretary-general of one of the GUFs to play the role of the key interlocutor with global management. This he played out to the hilt, even to the point of threatening withdrawal from the agreement. This, then, was an instance of a transnational union network ensuring that local practices were brought to the attention of global management. Ultimately, global management overcame national and local resistance and committed to implementing the GFA in the USA at least in the foreseeable future. This decision was accompanied by an apparent reassignment of personnel at its US operations. In addition to the pressure applied by the global union network, it was reported to us that the dispute had generated concerns within the company about possible negative financial implications.

The company's letter of commitment to the implementation of the GFA in the USA is an incomplete step in the process of implementation. Shortly thereafter a subsidiary in an important emerging market claimed that the GFA did not apply to it. The GUFs involved have expressed their concern about this piecemeal approach to the GFA but were reassured that global management is willing to include the kind of explicit commitment that they offered in the USA into a renegotiated agreement. If so, this will be an instance of moving in the direction of transnationalizing HRM and labor relations in the interest of a comprehensive CR strategy.

5.2 MetalCorp

The second company is a leading automotive company with strong presence in North America. It expanded into the USA by purchasing a number of companies in the early 1990s. In all cases it accepted the status quo, which included unionization by two different unions. It continues to do so to this day, a practice that is consistent with the GFA but did not result from its application. In the late 1990s MetalCorp purchased a major US company while also building a new greenfield plant of its premium division in a southern state. For its part, the union (United Auto Workers – UAW) concluded that its recognition at the new greenfield site would pose no problems. This expectation received additional impetus from the CR initiatives adopted by the CEO (Global Compact) and the subsequent negotiation of a GFA. The global works council, in fact, provided for representation by the US and Canadian unions that held the contracts of the purchased company. In addition, the national works council and the major home union behind it worked out an arrangement whereby a representative of the US union would sit on the Supervisory Board of the company. Nevertheless, the company was resolute in opposing the meaningful participation of the IMF, making its signature on the agreement largely symbolic.

When the UAW and, subsequently, a second union, tried to unionize the greenfield site they were met with stiff local resistance at the company and in the community. The company disclaimed any anti-union activity on the part of its management, stating that it would welcome unionization if that was the preference of the employees. At the same time it indicated that their HRM practices were of such high quality that they saw no practical reason why workers would want to unionize. There is no evidence that the company actively opposed unionization in these cases. Instead, leading figures from the local development board strongly expressed their opposition to the company's position that unionization was a possibility, however unlikely and undesirable, and hired union-avoidance specialists. While this practice led to a public relations problem for the local development board it nevertheless successfully stymied unionization efforts. In a similar case at a local supplier to MetalCorp, the company claimed to be taking a neutral stance (there is some debate about that) while local interests took the lead in preventing unionization.

MetalCorp is highly unionized even outside its home country. In the USA, the company accepted the presence of the labor union at those workplaces, which it acquired from another company. In these instances, the labor union was a factor and an actor in the local labor control regime. MetalCorp's investment decision could not be selective regarding labor relations and had to recognize previously existing arrangements. To be sure, after the takeover, MetalCorp management could have elected to go non-union. However, it rejected that option, presumably because of the problems and conflicts it would have engendered.

In contrast, MetalCorp knowingly selected a location with a decidedly "no union" environment for its greenfield investment. While global management repeatedly confirmed its willingness to respect the right of the union to run an organizing campaign and as a good “corporate citizen” to abide by the law and local customs, it was well aware of the strength of local anti-union sentiment. Attempts on the part of the UAW and subsequently the other union, the International Association of Machinists, to overcome this opposition failed, not only because of local anti-union activities, but also because the unions did not develop a transnational leverage strategy that would have included the powerful home country union and MetalCorp’s works council. As the organizing drives of the US unions remained local exercises, labor’s position of strength within the corporation’s home country remained unutilized. Global corporate management was not under any immediate pressure to make any clarifying statements or ensure that local management did in fact respect the corporate policy of neutrality.

Both instances raise important practical and theoretical questions. From a practical point of view it can be argued that the company did not live up to its GFA obligations by not taking a strong positive attitude towards unionization in its own plant and that of the supplier. This contrasts with the company’s much better record of using its GFA to resolve disputes involving suppliers throughout its production chain as well as its more recent policy explicitly applying the GFA to suppliers. It also contrasts with the company’s long-standing relations with unions in the rest of its activities throughout the USA.

5.3 SecureCorp

The third company is in the security sector. The company entered the US market in the 2004 by buying a Danish multinational, which had bought a large US company, a multinational in its own right, two years earlier. Soon thereafter the subsidiary entered into a protracted conflict with a major union, which is also a dominant player in the relevant Global Union Federation. The national union organized a global campaign that involved the GUF, bilateral relations with unions where SecureCorp operates, and union capacity building in countries where SecureCorp was planning new operations. The high costs of a continued conflict, pressure from a global network of unions and the company’s strategy to position itself as a global “brand” known for its CR in HRM in a sector rife with “bottom feeders” facilitated the resolution of the national conflict.

Security services must go where they are contracted (largely in cities) and can benefit from a good brand name, especially if they are global players seeking contracts involving high risk facilities or the headquarter locations of other globally operating corporations. As noted, the US union had an aggressive nationwide campaign to unionize the sector and supported that campaign through transnational networks and capacity building. At the same time, its end-goal is a collaborative arrangement that seeks to ensure that companies that unionize remain competitive in their markets. Altogether, there are many reasons why a company interested in creating a global brand would be willing to find common ground with a major national union that has global reach. Moreover, the company sees the global union federation as a partner in ensuring higher levels of labor rights around the globe in exchange for a collaborative approach that ensures competitiveness. In this particular case, then, it would seem that the company is pursuing a transnational policy as far as HRM is concerned.

As with ResourceCorp, a transnational campaign pursued by labor unions moved the SecureCorp towards the implementation of the GFA in the USA. One important difference, however, is the more proactive and strategic view of the GFA by SecureCorp management. After bitter resistance to union recognition in the USA, SecureCorp HQ's management acquiesced, engaging the GUF as a global partner in developing a joint implementation policy. Yet, that does not mean that the negotiations have ended. During 2011 SecureCorp participated in multilateral negotiations in the USA with the key union and two other companies in the sector (one of them also a GFA signatory) in an effort to ensure that implementation does not place it in a disadvantageous position. As was related to us by union representatives, the expectation was that SecureCorp would take a leading role in the sector by actively supporting implementation. Most recent information suggests that some positive developments have taken place that will lead to the better implementation of the GFA in the USA. That SecureCorp assigns a great deal of importance to the USA is evidenced by the fact that the global HR manager, and the one who negotiated the GFA, has now taken over as HR manager for the Americas.

5.4 ChemCorp

The final company is in the chemicals sector and its major presence in the USA is through its purchase of a national company which was already unionized. Additionally, it has a variety of operations in other specialized chemicals. As a result it is a company in search of a common identity.

Because employees represented by one of the home unions are significant shareholders, they are entitled to elect a representative to the managing board. In this case, their representative, a former union official, is now in charge of the company's sustainability program. At the same time the CEO of the company is also committed to sustainability and CR. Yet, for some time the company was facing some obstacles in adopting the GFA provisions in the USA, despite the fact that many of its plants are unionized and that central HQs was keen on implementing the IFA. Increasingly, however, a confluence of developments seems to have overcome any systemic local resistance. This confluence consists of a number of developments.

ChemCorp management has taken a very aggressive approach to globalizing its CR commitments emerging from the GFA in the direction of global social dialogue. Besides annual joint GUF-management missions to subsidiaries in selected countries, new forms of intra-company transnational networks have been institutionalized. This we would argue sets ChemCorp apart from the practices of SecureCorp, which are less institutionalized. This is clearly an instance of global headquarters pushing subsidiaries in the USA to implement the GFA. While a global HRM strategy may also be operating in this case (as the company is trying to unify its disparate acquisitions) there also seem to be additional factors associated with the global governance of the corporation at play. For these reasons, this GFA is one of the most "creative" ones.

At the global level the company has developed a close relationship with a global union federation that is itself very interested in ensuring its own role in negotiating and implementing global agreements. The external actor, in short has become an internal one. In collaboration the company and the global union federation have set up a global health and safety committee that is now in operation and are exploring the possibility of setting up a global works council. When a major US union with contracts at several important plants tried to organize a newly acquired facility and met with resistance from local management, global HQ reacted swiftly to protests from the US union and the GUF, ensuring that local management would not intervene and that no procedural obstacles to the unionization process would be raised.

During 2012 ChemCorp was bought by another company in the sector. Its CEO will succeed the buyer's CEO when he retires in a few years. Whether these GFA-related initiatives survive and get transferred to the new company will be a major test of the resilience of best practices.

6 Findings and implications

The bargaining model advanced by Levy and Prakash is designed to show the complexity of interests with which MNCs must deal in pursuing their preferred governance goals. The authors conclude from this that MNC "support or opposition for a particular regime type" will be determined by "MNCs' perceptions of their *relative* influence versus other actors across governance arenas as well as the competitive implications of specific regimes."[58] Secondly, the authors argue that the multi-actor and "dynamic nature of the bargaining process" results in an "indeterminacy of outcomes." Thus, "while MNCs are powerful actors, they do not always succeed in imposing their preferred regime type." Using this bargaining model we have been able to examine the impacts of internal and external actors operating within global and local institutional arrangements with particular attention to their impact on local labor control regimes. In what follows we outline the constellations of actors that best explain the outcomes that we observe and, on that basis, draw some general conclusions from the findings.

At ResourceCorp we found a corporate policy of outsourcing and delegating responsibility for employment and labor relations to local actors. Combined with a hollow GFA the way was opened for management representatives in one subnational locality to attempt to weaken the recognized union and in another to block union recognition efforts. National host country union activity linked to the global union federations BWI and ICEM generated pressure that was applied to corporate headquarters, which in turn issued a policy guideline on neutrality and collective bargaining that national and subnational management was obliged to follow. Bargaining over union demands was restarted and local management remained neutral in a recognition election that the union won. How stable local labor-management relations are over time is uncertain. At this point, however, we have an actor constellation in support of implementing the GFA that is driven by transnational union collaboration and facilitated by global management's decision to make national management implement the GFA.

At SecureCorp, investment in the USA took place before the GFA was signed and came via acquisition of an operation with an openly anti-union policy. SecureCorp headquarters had good relations with its home country union, but left decisions on labor relations to local management in the USA. The national union, which was external to the corporation as it held no contracts, concluded that it could only gain recognition through an aggressive public campaign and transnational union cooperation. Working with the relevant GUF (UNI) and affiliates in other countries with SecureCorp subsidiaries, the national union turned a national campaign into a global one, which in the end brought SecureCorp corporate headquarters to the bargaining table to negotiate a GFA. The GFA is a creative one because it establishes and institutionalizes joint consultations and implementation. After the signing of the GFA, partial recognition of the union has been achieved and collective bargaining has commenced. Again, the actor constellation that produced these results involved transnational union collaboration and

58 Levy and Prakash 2003: p. 134.

a global management that decided to honor its commitments and force national management to comply with them. Interestingly, in this case, the national union's willingness to help the corporation remain competitive while also running a worldwide campaign in collaboration with the GUF seems to have played an important role for a global management intent on branding the corporation.

ChemCorp has invested in the US through acquisitions. In some subnational labor markets unions were already established while, in others, unions had not been able to organize ChemCorp operations. National unions ran into stiff opposition on the part of national ChemCorp management. The union reported this problem to the GUF (ICEM), which embarked on a joint mission to the USA with global management in order to bring US management into line with corporate policy as expressed in its GFA. This example of a creative agreement involving a joint GUF-headquarter management approach enabled the national union to run an organizing campaign and win a recognition election. In this case we found an actor constellation driven by the joint activity of the global external and internal actors, but also with strong input from the national union. The role of national management has been more reactive than proactive, meaning that the long-term implementation of the GFA is still hanging in the balance, especially since ChemCorp has been acquired by a company that has not signed a global agreement.

MetalCorp's investments in the USA are a good example of the adaptation of an MNC to specific local labor control regimes in conjunction with its investment goal of gaining and increasing its market shares in the US. The first investments in production sites were through acquisitions of operations some with union contracts. With a more recent greenfield investment, a location was chosen with a dominant anti-union culture, although MetalCorp has a long history of stable relations with the home country union and has a GFA that is strongly anchored at headquarters and has been used to rectify reported violations outside the USA. MetalCorp accepted the union as an actor in the local labor market at the acquired sites. In contrast, at the greenfield site, local management has declared itself neutral in line with official corporate policy, but has used MetalCorp's strong position in the local labor market based on attractive employment conditions and its integrated position in the local business community to undermine union organizing efforts. Until recently, the unions in both the host and the home countries did little to leverage this situation by developing transnational links together with the GUF (IMF). As a result, the actor constellation was fragmented: national and subnational local management determined employment conditions and silenced union voice, global external (GUF) and internal (World Employee Committee) actors on the labor side were not consulted or recruited for developing a common strategy, and global management could reference the GFA without having to involve itself locally or discipline local management.

From these cases we summarize that GFA implementation depends on the strength of the overarching actor constellation. Implementation is most successful when all four actor groups: local internal, local external, global internal and global external cooperate in realizing the agreement. Where such coalitions of cooperative partners do not develop, local management has the leeway to determine labor relations policies. However, what our cases also show is that when global external actors, such as GUFs, are successful in leveraging the GFA with global management, then local management acquiesces, at the very least. In the MetalCorp case neither of these two constellations were present.

The three successful cases support the possibility that MNCs do not always get to hold onto the advantages they reaped when making policy without union involvement; but also, that in certain situations they may be adaptable to accepting constructive labor relations with unions if necessary. Transnational labor collaboration in conjunction with the successful leveraging of the GFA at the level of global management helped move these GFAs away from the host country dynamics. This finding is consistent with Cooke's argument[59] that transnational union collaboration can help shift the balance of power in favor of labor unions, especially in a country like the USA. Transnational union collaboration, he suggests, raises the costs of intransigence on the part of management by expanding the scale and scope of management-union engagement. One of the advantages that corporations enjoy is that they can engage in global strategies against entities, whether states, localities or unions that employ local strategies. Transnational union collaboration tempers this uneven bargaining relationship. This is consistent with the logic of Keck and Sikkink's argument[60] regarding the potential of local-global-local "boomerang" effects.

The significant additional finding here is that the implementation of the GFA required both transnational union collaboration and a successful engagement of management by employing the "institution" of the GFA. Our explanation, therefore, involves a confluence of actor preferences as well as an institutional element. Our broader research suggests that at this constitutional moment in time most GFA signatories have sooner or later responded to transnational collaboration that involved GUFs while they were less likely to do so when the pressures were more fragmented and did not involve the use of a GFA. Evidence for this can be seen in a dramatic case involving IKEA in the USA, where transnational union collaboration and use of the GFA allowed a national union to organize a plant in

59 Cooke 2005.

60 Keck and Sikkink 1998.

Virginia. In contrast, a local campaign involving the same company in the same town during the same time failed dismally.[61]

The fact that a number of GFAs have been implemented in the USA does not mean that they are all the same. What becomes apparent is that the micro-institutional arrangements that emerge, i.e., the specific GFAs, reflect the bargaining amongst actors that starts with negotiations and continues with implementation and beyond. Some of these GFAs reflect more proactive attempts at global social dialogue, others are instances of HRM based global branding and still others may be examples of assertive unilateral CR policies.

Another intriguing lesson from our study relates to the preferred levels of authority. Levy and Prakash suggest that MNCs prefer enabling regimes at the global level and social regulatory regimes at the national level. In general this confirms insights by others that MNCs do not treat all functions equally. Strategic functions are more likely to attract the resources of HQs while less strategic functions are likely to be marginalized and fragmented.[62] What the GFAs show, and this is not inconsistent with the deeper logic of the Levy and Prakash argument and the literature on forum-shifting, is that choices regarding levels of authority are strategic. In this case MNCs prefer to keep GFAs at the global level to avoid the costs of implementation and to absorb the CR benefits. GUFs, on the other hand, want GFAs implemented at the local level because it is here that enforceable agreements can be reached through collective bargaining, thus institutionalizing the process and moving in the direction of social regulation. One presumes that as the bargaining over GFAs unfolds the various actors involved will continue to promote those levels of authority that are more consistent with the kinds of policy that they want.

7 Conclusions: CR, MNCs and Nation-States

The puzzle animating this article is rooted in the exceptions we have found to the influence of USA liberal capitalism on European signatories of GFAs. The fact that these are exceptions that deviate from the norm demonstrates the influence of national institutions on the implementation of CR initiatives. A growing corrective to the aggregate national level of much of comparative institutionalism has been the emphasis on subnational and local institutional arrangements.[63] Such an approach

61 BNA 2011; BWI 2011.

62 Kostova 1999; Kostova and Roth 2002.

63 Geppert and Williams 2006; Crouch et al. 2009; Lane and Wood 2009; Almond 2011.

is necessary for large, federal countries and consistent with the approach to transnational politics associated with global production networks.[64] However, it serves better as a corrective as most subnational dynamics are engendered by and nested within broader national rules and institutions. The heterogeneity of US industrial relations in the private sector is particularly apparent in the MetalCorp case.

As we have shown, GFAs involve a category of actors, GUFs and their member affiliates from different countries, that has not received much attention in the literature.[65] A GUF's mandate to negotiate and sign a GFA comes indirectly from employees via its member unions. GUFs are weak organizations, both in terms of rule making and resources. However, they occupy a nodal point that brings together organizations from practically every corner of the world. To the degree that their affiliates allow them a modicum of autonomy they can exercise a leadership in regard to MNCs and their labor policies that is unrivaled among civil society organizations.

Managers at the global, national and local level are key internal actors, their relations shifting depending on the nature of the cross-border strategy of the corporation.[66] While we have only been able to touch briefly on their roles in the GFA implementation process, both the bargaining model and the case studies should have made it clear that GFAs, much more than unilateral codes of conduct and almost all multi-stakeholder arrangements, have an actually substantial impact on the internal managerial relations of the corporation. On one hand, they empower HQs to pursue a global labor strategy while, on the other, they require national and local managers to craft local labor strategies that reflect local institutions but are also consistent with the GFA.

GFAs are not simply goals to be reached in this case. They are also strategic tools that are employed by transnational union networks for institutionalizing global labor relations. GFAs present us with an important case because they are negotiated with labor unions, autonomous organizations that represent MNC workers. This distinguishes them from entities such as NGOs that advocate for workers.[67] As a result their attention to the firm's activities is more sustained. Moreover, as our cases suggest, unions can scale up their bargaining activity to the global level while "shadowing" the firm from the plant to the HQs. When unions can collaborate, and important elements of management are committed to the GFA the end result is a global form of governance within which local implementation is enacted.

64 Dicken 2011.

65 Stevis 1998; Stevis and Boswell 2008; Croucher and Cotton 2009; Platzer and Müller 2011.

66 Bartlett and Ghoshal 1998.

67 Seidman 2005; Fichter and Sydow 2002.

But what do GFAs, as an *emergent* institution, herald? With respect to the corporation they are more likely to promote global rather than multi domestic or transnational labor practices. GFAs commit MNCs to ensure that their subsidiaries and their suppliers adopt policies that are based on global standards while remaining sensitive to local circumstances. To the degree that transnational labor collaboration is successful it raises the salience and visibility of labor practices on the MNC agenda. As a result, GFAs globalize both CR and the MNC.

But does that mean that GFAs are evidence of a new global regulatory labor regime? That is not necessarily the case. As our case studies show, even successful implementation of individual GFAs does not automatically mean the emergence of a broader institution of negotiated civic regulation.[68] Unless a majority of leading firms in each sector has negotiated and implemented similar GFAs, a move beyond national labor relations systems and towards a more patterned global regime is unlikely. Nevertheless, the micro-institutional beginnings of individual GFAs could well pave the way for a meso-institutional global regime.

However, in the absence of global public rules, it is very possible that a patchwork of social regulatory regimes at the level of individual firms may emerge. This possibility would be embedding GFAs within CR more so than embedding CR within emerging forms of civic or public regulation or industrial relations. Such an outcome may well be considered business-enabling to the degree that it limits the pressure on the MNC to be consistent with globally established labor rules and fails to come to terms with the precariousness of employment relationships at the periphery of global production networks.

There is no evidence that binding global public policy with respect to labor practices is on the horizon. An adequate global public policy would have to ensure that firms and global production networks are covered, i.e., that firms have responsibility for those they "govern" even in countries with low labor standards. It is conceivable that the source of such policy would be the ILO, but its role would have to be strengthened and its standards better integrated into a comprehensive global social policy. Yet, while GFAs, by themselves, leave a great deal to be desired, their experience can serve to identify best practices in this continuous bargaining that involves negotiation, implementation, monitoring, evaluation and renegotiation. Ideally, such a process can inform a global public policy tailored to a world in which MNCs play a central if not dominant role. However, unless GUFs and transnational union collaboration can ensure that the content and implementation of GFAs is not mired in a contradictory patchwork, individual best practices will not necessarily amount to collective best practices.

68 Bendell 2000.

References

Almond, P. 2011. "The sub-national embeddedness of international HRM." *Human Relations* 64(4): 531–551.

Bartlett, C. and S. Ghoshal. 1998. *Managing across borders: the transnational solution*. 2nd ed. Boston, MA: Harvard Business School Press.

Bendell, J. ed. 2000. *Terms of endearment: business, NGOs and sustainable development*. Sheffield: Greenleaf Publishers.

Birkinshaw, J. and T. Pedersen. 2009. Strategy and management in MNE subsidiaries. In: A. Rugman (ed.), *The Oxford handbook of international business*. Oxford: Oxford University Press, pp. 367–388.

Block, F. and M. Keller. eds. 2011. *State of innovation: the U.S. Government's role in technology development*. Boulder, CO: Paradigm Press.

BNA – Bureau of National Affairs. 2011. EBI Workers at Ikea Supplier in VirginiaVote Against Steelworkers Representation, 25 LRW 1490 (August 18, 2011).

Brown, D., A. Vetterlein and A. Roemer-Mahler. 2010. "Theorizing transnational corporations as social actors: an analysis of corporate motivations." *Business and Politics* 12(1), 1–37.

BWI (Building and Woodworkers International). 2011. Danville, Virginia. Swedwood Workers Vote Union YES. URL: http://www.bwint.org/default.asp?Index=3639&Language=EN (Accessed August 1, 2011).

Campbell, J. L. 2004. *Institutional change and globalization*. Princeton, NJ: Princeton University Press.

Campbell, J. L. 2007. "Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility." *Academy of Management Review* 32(3): 946–967.

Cobb, J. and W. Stueck. eds. 2005. *Globalization and the American South*. Athens, GA: University of Georgia Press.

Cooke, W. N. 2001. "Union avoidance and foreign direct investment in the USA." *Employee Relations* 23(6): 558–580.

Cooke, W. N. 2003. "The influence of industrial relations system factors on foreign direct investment." In: W. Cooke (ed.), *Multinational companies and global human resource strategies*, Westport, CT: Quorum Books, pp. 65–85.

Cooke, W. N. 2005. "Exercising power in a prisoner's dilemma: transnational collective bargaining in an era of corporate globalisation?" *Industrial Relations Journal* 36(4): 283–302.

Cooke, W. N. 2008. Multinational companies and global human resource strategy. *Oxford handbooks online: The Oxford handbook of human resource management*, Oxford: Oxford University Press, pp. 489–508.

Crouch, C., M. Schroder and H. Voelzkow. 2009. "Regional and sectoral varieties of capitalism." *Economy and Society* 38(4): 654–678.

Croucher, R. and E. Cotton. 2009. *Global unions, global business. global union federations and international business*. Middlessex: Middlessex University Press.

Davies, S., G. Williams and N. Hammer. 2011. "Organizing networks and alliances: international unionism between the local and the global." In: K. Papadakis (ed.), *Shaping global industrial relations. the impact of international framework agreements*. Geneva:ILO; Houndsmills, UK: Palgrave Macmillan, pp. 201–219.

Deeg, R. and G. Jackson. 2007. "Towards a more dynamic theory of capitalist variety." *Socio-Economic Review* 5(1): 149–179.

Descolonges, M. 2009. *La protection du maillon le plus faible. Enjeux de l'action syndicale au sein de la sous-traitance et des fournisseurs des multinationales. Les usages des accords-cadres internationaux. Etude pour la CGT.* IRES-CGT. Paris.

Dicken, P. 2011. *Global shift: Mapping the changing contours of the world economy*. 6th ed. New York: The Guilford Press.

Edwards, Paul et al. 2007. *Employment practices of MNCs in organizational context: a large-scale survey*. De Montfort University; Kings College London; Warwick Business School. Warwick; London.

Egels-Zandén, N. 2009. "TNC motives for signing international framework agreements: a continuous bargaining model of stakeholder pressure." *Journal of Business Ethics* 84(4): 529–547.

Fichter, M. 2011. "Exporting labor relations across the Atlantic? Insights on labor relations policies of German corporations in the U.S." *Working USA* 14(2): 129–143.

Fichter, M. and J. Sydow. 2002. "Using networks towards global labor standards? Organizing social responsibility in global production chains." *Industrielle Beziehungen – The German Journal of Industrial Relations* 9(4): 357–380.

Fichter, M. and M. Helfen. 2011. "Going local with global policies: implementing international framework agreements in Brazil and the United States." In: K. Papadakis (ed.), *Shaping Global industrial relations. the impact of international framework agreements*. Geneva: ILO and Houndsmills, UK: Palgrave Macmillan, pp. 73–97.

Fichter, M., M. Helfen and J. Sydow. 2011a. "Employment relations in global production networks – Initiating transfer of practices via union Involvement." *Human Relations* 64(4): 599–622.

Fichter, M., M. Helfen and J. Sydow. 2011b. "Regulating labor relations in global production networks. Insights on international framework agreements." *Internationale Politik und Gesellschaft* (2): 69–86.

Fransen, L. W. and A. Kolk. 2007. "Global rule-setting for business: a critical analysis of multi-stakeholder standards." *Organization* 14(5): 667–684.

Gartenberg, I. and S. Bandekar. 2011. "Challenges to ensuring core labour standards in transnational corporations: the case of India." *The Indian Journal of Labour Economics* 54(2): 269–283.

Geppert, M., D. Matten and P. Walgenbach. 2006. "Transnational institution building and the multinational corporation: An emerging field of research." *Human Relations* 59(11): 1451–1465.

Geppert, M. and K. Williams. 2006. "Global, national and local practices in multinational corporations: towards a sociopolitical framework." *International Journal of Human Resources Management* 17(1): 49–69.

Gregoratti, C. and D. Miller. 2011. "International framework agreements for workers' rights? Insights from River Rich Cambodia." *Global Labour Journal* 2(2): 84–105.

Griffin, J. and A. Prakash. 2010. "Corporate responsibility: Initiatives and mechanisms." *Business and Society* 49(1): 179–184.

Hall, P. and D. Soskice. eds. 2001. *Varieties of capitalism: the institutional foundations of comparative advantage*. Oxford: Oxford University Press.

Herrnstadt, O. 2007. "Are international framework agreements a path to corporate social responsibility?" *University of Pennsylvania Journal of Business and Employment Law* 10(1): 187–224.

Hoffman, C. 2008. "Global campaigns: a case study with G4S." *International Union Rights* 15(3): 4–5.

HRW (Human Rights Watch). 2010. *A strange case: violations of workers' freedom of association in the United States by European multinational corporations.* New York: Human Rights Watch.

Hyman, R. 2004. "Is industrial relations theory always ethnocentric?" In: B. Kaufman (ed.), *Theoretical perspectives on work and the employment relationship*. Champaign: Industrial Relations Research Association, pp. 265–292.

International Organization of Employers. 2007. *International framework agreements: an employers' guide*. Geneva: IOE.

ITC-ILO [International Training Center – International Labour Organization]. 2010. *Key issues for management to consider with regard to Transnational Company Agreements (TCAs): Lessons learned from a series of workshops with and for management representatives*. Turin: ITC-ILO.

Jackson, G. and R. Deeg. 2008. "From comparing capitalism to the politics of institutional change." *Review of International Political Economy* 15(4): 680–709.

Jonas, A. E. G. 1996. "Local labour control regimes: Uneven development and the social regulation of production." *Regional Studies* 30(4): 323–338.

Keck, M. and K. Sikkink. 1998. *Activists beyond borders: advocacy networks in international politics*. Ithaca, NY: Cornell University Press.

Kostova, T. 1999. "Transnational transfer of strategic organizational practices: a contextual perspective." *The Academy of Management Review* 24(2): 308–324.

Kostova, T. and K. Roth. 2002. "Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects." *Academy of Management Journal* 45(1): 215–233.

Kytle, B. and J. G. Ruggie. 2005. *Corporate social responsibility as risk management*. Corporate Social Responsibility Initiative, Working Paper #10. URL: http://www.hks.harvard.edu/m-rcbg/CSRI/publications/workingpaper_10_kytle_ruggie.pdf (Accessed April 20, 2012).

Lane, C. and G. Wood. 2009. "Capitalist diversity and diversity within capitalism." *Economy and Society* 38(4): 531–551.

Levy, D. and A. Prakash. 2003. "Bargains old and new: multinational corporations in global governance." *Business and Politics* 5(2), 131–150.

Logue, J. 1980. *Toward a theory of trade union internationalism*. Gothenburg: University of Gothenburg Press.

Macaire, S. 2001. "New Economic Regulations Law Adopted." *Eironline*. URL: http://www.eurofound.europa.eu/eiro/2001/05/feature/fr0105156f.htm (Accessed July 22, 2011).

McCallum, J. K. 2011. "Trade union renewal and labor transnationalism in South Africa: The case of SATAWU." *Working USA* 14(2): 161–176.

Matten, D. and J. Moon. 2008. "'Implicit' and 'Explicit' CSR. A conceptual framework for a comparative understanding of corporate social responsibility." *Academy of Management Review* 33(2): 404–424.

Morgan, G. and P. H. Kristensen. 2006. "The contested space of multinationals: Varieties of institutionalism, varieties of capitalism." *Human Relations* 59(1): 1467–1490.

Müller-Jentsch, W. 2004. "Theoretical approaches to industrial relations." In: B. Kaufman (ed.), *Theoretical perspectives on work and the employment relationship.* Champaign, IL: Industrial Relations Research Association, pp. 1–40.

Niforou, C. 2012. "International framework agreements and industrial relations governance: global rhetoric versus local realities." *British Journal of Industrial Relations* 50(2): 352–373.

Northrup, H. and R. Rowan. 1979. *Multinational collective bargaining attempts: the record, the cases and the prospects*. Multinational Relations Series 6. Philadelphia, PA: Industrial Research Unit, The Wharton School, University of Pennsylvania.

Papadakis, K. ed. 2011. *Shaping global industrial relations. the impact of international framework agreements*. Geneva: International Labour Office and Houndsmills: Palgrave Macmillan.

Platzer, H.-W. and T. Müller. 2011. *Global and European trade union federations. a handbook and analysis of transnational trade union organizations and policies*. Trade Unions Past, Present and Future 14. Oxford: Peter Lang.

Preuss, L., A. Haunschild and D. Matten. 2009. "The rise of CSR: Implications for HRM and employee representation." *International Journal of Human Resource Management* 20(4): 953–973.

Pudelko, M. and A.-W. Harzing. 2007. "Country-of-origin, localization, or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries." *Human Resource Management* 46(4): 535–559.

Rainnie, A. l., A. Herod and S. McGrath-Champ. 2011. Review and positions: global production networks and labour. *Competition and Change* 15(2): 155–169.

Riisgaard, L. and N. Hammer. 2011. "Prospects for labour in global value chains: Labour standards in the cut flower and banana industries." *British Journal of Industrial Relations* 49(1): 168–190.

Robinson, P. K. 2011. "International framework agreements: do workers benefit in a global banana supply chain?" In: K. Papadakis (ed.), *Shaping global industrial relations. the impact of international framework agreements*. Geneva: International Labour Office and Houndsmills: Palgrave Macmillan, pp. 164–178.

Seidman, G. W. 2005. "Monitoring multinationals: corporate codes of conduct." In: J. Bandy and J. Smith (eds.), *Coalitions across borders. Transnational protest and the neoliberal order*. Lanham, MD: Rowman and Littlefield, pp. 163–183.

Stevis, D. 1998. "International labor organizations, 1864–1997: The weight of history and the challenges of the present." *Journal of World-Systems Research* 4: 52–75. http://jwsr.ucr.edu/.

Stevis, D. 2009. *International framework agreements and global social dialogue: Lessons from the Daimler case*. Employment working paper, 46 (Geneva, International Labour Office).

Stevis, D. 2010. *International framework agreements and global social dialogue: Parameters and prospects*, Employment working paper, 47 (Geneva, International Labour Office).

Stevis, D. 2011. "The impacts of international framework agreements: lessons from the Daimler case." In: K. Papadakis (ed.), *Shaping global industrial relations. the impact of international framework agreements*. Geneva: International Labour Office and Houndsmills: Palgrave Macmillan, pp. 116–142.

Stevis, D. and T. Boswell. 2007. "International framework agreements: opportunities and challenges for global unionism." In: K. Bronfenbrenner (ed.), *Global unions: challenging transnational capital through cross-border campaigns.* Ithaca, NY: Cornell University Press/ILR, pp. 174–194.

Stevis, D. and T. Boswell. 2008. *Globalization and labor: democratizing global governance*. Lanham: Rowman and Littlefield.

Streeck, W. 2009. *Re-Forming capitalism. Institutional change in the German political economy*. Oxford: Oxford University Press.

Tempel, A. and P. Walgenbach. 2007. "Global standardization of organizational forms and management practices? What new institutionalism and the business-systems approach can learn from each other." *Journal of Management Studies* 44(1): 1–24.

Thelen, K. 2009. “Institutional change in advanced political economies.” *British Journal of Industrial Relations* 47(3): 471–498.
Waddock, S. 2008. “Building a new institutional infrastructure for corporate responsibility.” *Academy of Management Perspectives* 22(3): 87–108.
Walton, R. E., J. Cutcher-Gershenfeld and R. B. McKersie. 2000. *Strategic negotiations: a theory of change in labor-management relations*. Ithaca, NY: ILR Press.
Wills, J. 2002. “Bargaining for the space to organize in the global economy: a review of the Accor-IUF trade union rights agreement.” *Review of International Political Economy* 9(4): 675–700.

DE GRUYTER DOI 10.1515/bap-2012-0020 — Business and Politics 2012; 14(3): 1–21

Corporate Responsibility, Multinational Corporations, and Nation States

Sander Quak*, Johan Heilbron and Romke van der Veen

Has globalization eroded firms' responsibility for their employees? A sociological analysis of transnational firms' corporate social responsibility policies concerning their employees in the Netherlands, 1980–2010

Abstract: Since the 1970s many firms expanded their operations across national borders and were restructured to fit the changing economic conditions during these times of economic globalization. Using a sociological approach to transnational firms, in this article the authors research the consequences of these developments for the responsibility of two transnational firms towards their employees in the Netherlands. These firms experienced a shift in their dual embeddedness in national and transnational economic fields, with the latter gaining importance. In response, they adjusted their corporate policies and structure to fit the competitive conditions of these fields, causing a centralization of their corporate labor policy on the transnational level, the polarization of this policy and the instrumentalization of labor and labor policy. This also meant that their responsibility for their employees was restructured and reduced.

***Corresponding author: Sander Quak,** Faculty of Social Sciences, Department of Sociology, Erasmus University Rotterdam, Burgemeester Oudlaan 50, M-Building, Office M6-26, 3062 PA Rotterdam, The Netherlands, E-mail: quak@fsw.eur.nl
Johan Heilbron: Centre Européen de Sociologie et de Science Politique de la Sorbonne (CESSP-CNRS0EHESS), Paris, France; and Erasmus University Rotterdam, The Netherlands
Romke van der Veen: Erasmus University Rotterdam, The Netherlands

1 Introduction

During most of the 20th century large firms developed and implemented policies for the benefit of their employees beyond what they were obliged to do from a regulatory standpoint. The originally Dutch electronics firm Philips,[1] for instance, created educational funds, healthcare provisions, sporting facilities, primary schools and libraries in and around the city of Eindhoven,[2] where it employed around one hundred thousand people in the 1970s (Kalb 1995; Quak, 2012). Most of these social policies were developed during the second and third quarter of the 20th century, a time when production facilities could not be moved halfway across the world in search for cheap labor as easily as they can be nowadays. Also, during this period, capital (firms) became more dependent on labor (employees, and trade unions as their representatives) and regulatory institutions (nation states).

In recent decades, this balance of power shifted. As a result of the deregulation of cross border trade and investments, the transnational restructuring of economic activities and the adjustment of firms' policies to this restructuring (economic globalization), firms obtained a stronger position vis-à-vis employees and nation states. It has been argued that this development resulted in a race to the bottom in "the areas of labor, environment, health and safety" (Levy and Prakash 2003: p. 132; see, for instance, Mishra 1999 and Friedman 2005). In this article we question this claim with regard to labor by analyzing how the policy and, with that, the responsibility of two transnational firms towards their employees has developed in the Netherlands in the period 1980–2010. Thereby we answer the central question of this article: *has globalization eroded firms' responsibility for their employees?* We do so using a sociological approach to transnational firms, which takes into account both the complexity of these firms themselves and the environments in which they operate.

2 Firms' responsibility for their employees

Based on agency theory, the shareholder approach argues that firm's only responsibility should be to maximize shareholder value (Jensen and Meckling 1976). The stakeholder approach, on the other hand, argues that firms should also bare

1 Royal Philips Electronics (Philips) is a producer of electronic equipment specializing in healthcare, lifestyle and lighting. Philips was founded in Eindhoven, The Netherlands, and employs approximately 120,000 people (2011) across the globe.

2 City of approximately 220,000 inhabitants (2011) located in the southern part of the Netherlands.

responsibility for other actors which are affected by their actions, such as their employees, suppliers, customers and even society as a whole (Freeman 1984). This latter argument has taken ground in both the business community and academia; firms should act upon their corporate social responsibility (CSR).

Defining CSR is not an easy task. It is an "essentially contested concept" (Moon et al. 2005: p. 433), an umbrella term for the relationship between firms and society and it means different things across countries and over time. However, it has been argued that central to the concept of "CSR is the idea that it reflects the social imperatives and the social consequences of business success" (Matten and Moon 2008: p. 405) and that CSR refers to firms' "responsibilities to society beyond that of making profits for the shareholders" (Carroll and Shabana 2010: p. 85). It has also been argued that CSR "encompasses the economic, legal, ethical, and discretionary [philantrophic] expectations that society has of organizations at a given point in time" (Caroll 1979: p. 500), and, more recently, that it has a "stakeholder dimension, social dimension, economic dimension, voluntariness dimension and environmental dimension" (Carroll and Shabana 2010: p. 89). From a more practical stand, "CSR (and its synonyms) empirically consists of clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good. Yet the precise manifestation and direction of the responsibility lie at the discretion of the corporation" (Matten and Moon 2008: p. 405). So, even though it might be difficult to define CSR, it is clear that it refers to firms' policies and practices that benefit other stakeholders than their shareholders and that go beyond what they are obliged to do from a regulatory standpoint. In this article we focus on firms' responsibility towards their employees. For many firms, employees constitute their biggest costs. Therefore, it can be expected that the consequences of economic globalization for the responsibility firms take for their stakeholders, other than their shareholders, are clearly observable when analyzing the development of their responsibility towards this particular stakeholder.

The policies and practices concerned are nowadays mostly discussed using a human resource management (HRM) perspective, both within firms themselves as well as in the scientific literature. This has not always been the case (see Jacoby 2005).

Over the course of the past century the management of employees developed from making sure that there were enough workers to run the factory, to strategically managing the "human resources" of the organization. From the 1910s and 1920s onwards firms created centralized personnel departments to guarantee a constant flow of new workers. After the economic depression of the 1930s, these departments were supported by government regulation and strong trade unions. They not only became concerned with providing sufficient workers and servicing company management, but also with servicing employees and safeguarding employees' interests vis-à-vis company management. In the final quarter of the twentieth century this, once again, changed. The position of the personnel department was fundamentally restructured; from a department that serviced employees, safeguarded their interests and advised and monitored line managers, they became, what is called, a "business partner" to company management responsible for aligning the corporate labor policy with the (financial) goals of the organization. They became known as "HR" and became concerned with the investment in and deployment of the company's human resources. This development was part of the restructuring of these firms on the national and transnational level, and first took place in the USA. Later, similar processes could be observed in other Western countries, including the Netherlands (Heilbron and Quak 2012). The question is how this has affected the responsibility of transnational firms for this "human resource" beyond what they are obliged to do from a regulatory standpoint.

3 Research method

As we are interested in the recent historical development (1980–2010) of transnational firms' responsibility towards their employees and want to provide a detailed account of the mechanisms at work, we have conducted case studies of two large firms, Philips and ING.

Philips, founded at the end of the 19th century, is an originally Dutch company active in the electronics industry. Over the course of the 20th century Philips opened production and sales facilities across the globe and, by the 1970s, it was seen as the "embodiment of the age of mass production" (Sluyterman 2005: p. 129) and "one of the few truly global companies in the world" (Atzema, et al. 2008: p. 186). In the final quarter of the 20th century, Philips experienced the full force of rising competition in the electronics industry and started a fundamental restructuring program to adapt to these new competitive conditions (Quak 2012). Because Philips has always been known as a generous employer, it is interesting to see how its policies and responsibility towards its employees have developed during this time of intensifying competition.

ING is the result of the merger between two Dutch banks and one Dutch insurer around 1990. Like the electronics industry, in recent decades the financial industry experienced a rapid transnational restructuring and ING is a prime example of this development. Also, ING and its predecessors are known for their rather generous social policies which makes it an interesting case study (Quak 2012).

We have conducted 27 interviews with employees (mid-level managers to top executives), works council members and union representatives of both companies in the Netherlands, and studied their annual financial and social reports, newspaper articles and other reports and writings on both companies.[3]

This article will focus on Philips' and ING's CSR policies concerning their employees in the Netherlands. We selected this country because as a small but open economy the consequences of changes in the global market place are of great importance to the Netherlands. Small countries often quickly react to these changes (Katzenstein 1985) and the consequences of changes in the economic environment can therefore be expected to first present themselves in a small but open economy as the Netherlands, and find their way to firms' policies.

Because the way CSR presents itself differs across countries (Caroll 1979), the choice for the Netherlands implies that we need to take into account how CSR presents itself in this country. "US corporations [have] long made *explicit* their attachment to CSR, whereas European business responsibility to society has tended to be more *implicit*" (Matten and Moon 2008: p. 405; *italics* in original). It is only recently that "European companies adopted a more explicit commitment to CSR resembling that of their US counterpart" (Matten and Moon 2008: p. 405). As the Netherlands is a European country, and given the historical nature of this research, we will pay attention to both "implicit" and "explicit" CSR. In doing so, we will follow Matten and Moon's conceptualization. Explicit CSR refers to "corporate policies that assume and articulate responsibility for some societal interests. They normally consist of voluntary programs and strategies by corporations that combine social and business value and address issues perceived as being part of the social responsibility of the company." Implicit CSR refers to "corporations' role within the wider formal and informal institutions for society's interests and concerns. Implicit CSR normally consists of values, norms, and rules that result in (mandatory and customary) requirements for corporations to address stakeholder issues and that define proper obligations of corporate actors in collective rather than individual terms" (2008: p. 409).

Many CSR studies have in common that they "share the premise that firm-level cost-benefit calculation drives corporate CSR behavior," whereby "CSR appears as a predictable outcome of cost-benefit analysis in which reputational benefits outweigh any associated costs." The problem with these studies is that they exclusively focus "on internal corporate dynamics" and "overlook changes in international and national environments" (Lim and Tsutsui 2012: p. 73). In their study on explicit and implicit CSR Matten and Moon draw on institutional theory to explain differences in "workers' rights, environmental protection, education, and corporate irresponsibility in the United States and Europe" (2008: p. 412). But, in order to properly account for both external forces and firms' individual motivation, we

3 The interviews and document analysis were conducted as part of the dissertation research of the first author (see Quak 2012: pp. 70–77).

argue we need a more elaborate theoretical framework which takes into account the institutional influences on corporate behavior, which has an explicit theory of action and which can account for constraints which are not the result of direct interaction with other actors or institutions. In line with Lim and Tsutsui we draw on “the economic sociology literature that emphasizes the role of social embeddedness in economic interactions” (2012: p. 75). But while they use this literature to build a theoretical framework composed of institutional and political-economy arguments to explain country level differences, we propose a sociological approach to transnational firms to explain the development of their policies and responsibility towards their employees.

4 A sociological approach to transnational firms

Most insights of the new economic sociology have been developed as a reaction to classic and neoclassic economic theory. The new economic sociology questions their claims of rationality and complete information and argues instead that all economic behavior is embedded in social structures (White 1981; Granovetter 1985; Convert and Heilbron 2007). These (neo)classic economic theories display an “atomized, under socialized conception of (...) action” (Granovetter 1985: p. 483), reduce transnational firms to rational and unified actors, do not leave room for constraints independent of direct interaction and do not take into account firm’s historical development (Bourdieu 2005). To overcome these problems and convincingly explain transnational firms’ policies and practices, we need a more sociological approach for which the concept of embeddedness is an interesting starting point.

According to Granovetter, actors do not act as “atoms outside of a social context, nor do they slavishly adhere to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations” (1985: p. 487). With this notion of embeddedness he opposes the decontextualized notion of rationality of most (neo)classic economic approaches and emphasizes the importance of social structures for economic action. At the same time, the notion of embeddedness also has its limits. First, it does not provide an explicit theory of action. And, second, it cannot properly account for structural constraints independent of direct interaction. But by connecting the notion of embeddedness to field theory as developed by Fligstein (1996, 2001a) and Bourdieu (2005), we can contribute to a sociological approach to transnational firms which tackles these problems and provides a more differentiated overarching framework.

Firms are embedded in fields, "situations where organized groups of actors gather and frame their actions vis-à-vis one another" (Fligstein 2001b: p. 107). Besides firms, any other actor with an interest in the field – including local, national, and regional governments, research centers, universities, and financial institutions – is embedded in this field as well. A field is a socially constructed space resulting from the interaction of the actors involved, while the existing structure of the field structures their interaction. The different actors struggle with one another for the dominant positions, because those actors with a dominant position can use the structure of the field to assure their own survival, which is their ultimate goal. Actors take on this struggle on the basis of their capital, consisting of the usual forms of economic and financial capital, but also of technological, social, and symbolic capital. The stability of the field can be threatened by price competition and internal power struggles. Because the situation within the field is uncertain a certain *conception of control* – a "vision of how to make the corporation work internally and how to interact with its main competitors" (Fligstein 2001a: p. 69) – is developed on the basis of which decisions are made. A conception of control is an interpretation of the situation in the field and functions as a decision-making mechanism. Because these conceptions of control become collectively acknowledged within the field, the functioning of the field is cultural in character. Besides being cultural, fields are also political in nature. First, because firms and the other actors do not primarily struggle within fields to obtain maximum financial gains, instead they struggle for the dominant positions. And second, because governments play an important role within fields. Modern markets are closely linked to nation states. In order to be able to organize, compete, cooperate and exchange, markets need rules and these rules are, primarily, designed, implemented and enforced by national governments. Actors' behavior is not only influenced by the specific positions they occupy in the fields in which they are embedded and which are the result of the volume and composition of capital they dispose of, their behavior is affected by their *habitus* as well (a concept which lies close to the concept of "corporate culture" as used in the management literature). An actor is an individual as well as a collective actor, which means that its preferences are shaped by its own and its environment's historical development. Like the conception of control, the shared historical development actors experience can result in similar actions of these actors, thereby resulting in isomorphism. At the same time, an actor's individual historical development results in actors making unique decisions. As a result, actors do not all act alike under similar conditions.

Firms operating across national borders are not only embedded in a single, national economic field; instead, they are both embedded in multiple national economic fields and the transnational economic field, each with its own distinct historical development and dynamics. We, therefore, argue that transnational firms experience a *dual embeddedness* in national and transnational economic fields. In order to be successful in these fields – obtain a dominant position – they will have to adapt their policies to their competitive conditions. When focusing on specific domains within the company, such as marketing, labor, finance and production, it depends on the topic at hand and the specific time period one is interested in which field is dominant.

With regard to their employees firms primarily experience constraints from the national economic fields in which they are embedded. In many Western countries, including the Netherlands, labor is organized through a wide variety of institutional arrangements such as labor legislation, the social security system and collective labor agreements. But firms are also constrained by the transnational economic field. Even more so, as a result of the transnational restructuring of economic activities, the competitive conditions of the transnational economic field have become more significant for firms' policies; firms have experienced a shift in their dual embeddedness in national and transnational economic fields in the direction of the latter. While trade barriers and monetary control significantly constrained cross border economic activities during the first three decades after the Second World War, and thereby resulted in competition between firms primarily taking place within the context of national economic fields, the processes of deregulation and international cooperation initiated in response to the economic crises of the 1970s resulted in a rapid expansion of economic activities across national borders, firms expanding their operations abroad and a significant increase of cross border competition. From the beginning of the 1980s until the beginning of the twenty-first century foreign direct investment increased twelve fold, while the number of companies operating across national borders increased eightfold (Gabel and Bruner 2003; Cooke 2007) causing an increasing significance of the transnational economic field. This field is characterized by a large number of firms competing for the dominant positions resulting in intense competition and a need to cut costs. Also, the position of regulating bodies is relatively weak when compared to their position in national economic fields, even when we include trans- and supranational organizations such as WTO, IMF, EU and NAFTA. Finally, alongside the increasing importance of the transnational economic field, financial markets have become increasingly important for the financing of firms, thereby promoting shareholder value as a dominant business principle (Useem 1996; Fligstein 2001a; Heilbron et al. 2011). The national economic fields of most Western countries, including the Netherlands, also experienced some significant changes in recent decades. First of all, in most Western countries, labor markets were made more flexible in order to make them more adaptive to changes in economic conditions. Second, many governments altered their social security systems (and other parts of the welfare system) to keep them affordable and adjust them to the changing labor market. And third, in various national fields we have witnessed a certain degree of decentralization of the industrial relations system giving individual firms a greater degree of freedom (Scharpf and Schmidt 2000a,b).

Firms operating across national borders experience a dual embeddedness in national and transnational economic fields. In recent decades the transnational field has become increasingly significant and, in response, these firms have adapted their policies to the competitive conditions of this field. However, with regard to labor the national economic fields are also still of great significance. Therefore, we argue that when analyzing transnational firms' policies and responsibility towards their employees it is vital to study their dual embeddedness.

5 The transnational restructuring of firms…[4]

A common assumption in the globalization debate is that as a result of firms' rapid expansion across national borders in recent decades they have become footloose, stateless or disembedded from the national economic fields in which they conduct their business. We question this claim and argue for a sociological approach to transnational firms to which the notion of dual embeddedness is central. We will now first analyze what this approach tells us about the development of the two case study companies.

Almost immediately after its founding at the end of the nineteenth century, Philips expanded its operations across the Dutch borders. Until the 1970s Philips became embedded in and struggled with other producers of electronic equipment in various national economic fields and the transnational electronics field.[5] But, this cross border expansion did not result in the transnational restructuring of its structure or policies. The structure and dynamics of the national economic fields in which it was embedded remained of prime significance for its corporate policies; for most of the twentieth century Philips operated on the basis of a local-for-local strategy. It took until the late 1980s and beginning of the 1990s before Philips – under pressure of foreign competitors – started to align its corporate structure and policies with the competitive conditions of the transnational electronics field.

4 See Quak (2012) for a detailed description.
5 The transnational electronics field is a subfield of the transnational economic field.

The strategy that had enabled Philips to obtain a dominant position within the transnational electronics field during the first three quarters of the 20th century was to produce and sell a wide range of products across the globe and control the entire production chain; Philips was an industrial conglomerate. But, despite its worldwide operations, Philips was governed and controlled on the basis of a "national" structure until the 1980s. Philips' national organizations bore a large part of the responsibility and power within the organization with regard to marketing, production and labor policies. After the Second World War competition within the transnational electronics field became more intense. As a result, the dynamic and structure of this field became more significant for Philips's financial performance. But despite the fact that this development already became apparent from the 1960s onwards – Philips experienced deteriorating profit margins during the 1960s, 1970s and 1980s because of intensifying competition from foreign, especially Asian, competitors – it took until the end of the 1980s before it became reflected in Philips' corporate policies. From the beginning of the twentieth century Philips had slowly built up a dominant position in the transnational electronics field and various national fields across the globe. When the competitive conditions within these fields drastically changed, it took some two decades before Philips reacted to this development and adjusted its structures and policies to fit the new competitive conditions. Over the course of the 1970s and 1980s it became clear that Philips' strategy was no longer a success. In response, Philips developed a new corporate strategy which was more in line with the shareholder value conception of control which had become dominant in the Western world. This strategy included (1) the transfer of significant parts of the production process to low cost countries in Eastern Europe, South and Latin America and Asia, (2) the outsourcing of significant parts of the production process to other firms, (3) (after initially investing in various new technologies) the focus on a relatively small number of product markets and (4) the transnational restructuring of the company resulting in a shift of power and responsibility to the transnational level. In recent decades Philips closed the vast majority of its production facilities in Western Europe and North America. It outsourced a significant part of its production capacity and focused on lighting, consumer products and health care causing a reduction of the number of employees from around 400,000 in 1970 to around 120,000 in 2010. And while Philips' national organizations, especially those of the USA, the Netherlands, Germany and some other Western European countries, had a significant part of the decision-making power until the late 1980s, this now primarily rests with its transnational business units. These changes did not take place overnight, something which can also not be expected of a company that over the period of almost a century has been very successful. Philips' individual development and the development of the fields in which it was embedded caused a process of path dependency and prevented Philips to quickly change its policies and strategies. Instead, these changes constitute a development which spans various decades and has still not come to an end. But, we can conclude that Philips has reorganized its policies and structures to fit the dynamics of the increasingly significant transnational electronics field. This also consisted of an increasing focus on shareholder value as a dominant business principle (see also Sluyterman 2005; Kahancova 2007; Atzema et al. 2008; Quak 2012).

ING's predecessors had, with one exception, limited their operations to the Dutch financial field for most of the 20th century; they were embedded in the Dutch financial field and struggled with other firms for the dominant positions within this field. It took until the 1990s before ING, facilitated by the deregulation of the financial sector, significantly expanded its operations abroad. From 2000 onwards, this expansion across national borders was implemented in its corporate structure and policies as well. It transformed from "a Dutch organization with foreign subsidiaries (...) into an international organization of Dutch descent."[6]

From the economic crisis of the 1930s until the beginning of the 1990s the financial sector in the Western world was highly regulated, among others concerning the transfer of financial products and services across national borders. As a result, competition between financial firms predominantly took place within national fields. With the upcoming integration of the European markets in 1992, various forms of regulation were dismantled in the EU-countries during the late 1980s and early 1990s. Financial firms responded to this development by expanding their operations abroad. While Philips' decision to restructure its corporate structure and policies on the transnational level was defensive (in reaction to increasing competition), ING's decision was offensive. With the integration of the various national financial fields and the creation of the European financial field, the dominant idea around 1990 was that only companies of a certain size would be able to obtain a dominant position and survive (Smit 2008). Therefore, many banks and insurers started a process of extensive expansion across national borders. ING was a prime example of this development and acquired various foreign banks and insurers from the mid-1990s onwards, starting with UK investment bank Barings in 1995. ING's predecessors were rather specialized companies focusing on a single or small number of product and geographic markets, but ING's strategy to obtain a dominant position was to become a financial conglomerate which offered all financial services, to all customers across the globe. This dispersion is illustrated by the declining importance of the Netherlands when looking at ING's revenues

6 From an interview with a HR manager with 30 years' experience.

and employees; they decreased from more than 60% in the beginning of the 1990s to around 25% in the mid 2000s. From the beginning of the 2000s ING's cross border expansion became reflected in its policies and structures. First, in 2000, ING was restructured from a national into a regional organization. In 2004, it was once again restructured, this time into a regional/transnational organization. These developments included the transfer of power and responsibility from the national to the regional/transnational level. It was during the late 1990s and early 2000s that shareholder value became a dominant business principle at ING. During the financial crisis of the late 2000s, it was decided that ING would be split up in two separate banking and insurance companies. This decision was taken under pressure of the European Commission after ING had to ask the Dutch government for financial assistance (see also Westerhuis 2008 and Quak 2012).

In recent decades both companies experienced a fundamental shift in their dual embeddedness and became increasingly dependent on their respective parts of the transnational economic field. They experienced the decline of their Dutch workforce as a percentage of their total workforce, the internationalization of top management and their revenues and profits have become dispersed across the globe. In reaction they adjusted their corporate structures and policies to fit this new reality. But, despite the fact that both companies experienced the transnational expansion of their operations and transnational restructuring of their organization, both the timing of and the reason for these developments differ.

The difference in timing can be explained by the differences in the structures of the transnational and national subfields in which the two companies are embedded and by their habitus. It was only in the 1990s that an increasing number of financial firms started to compete in the transnational financial field and ING experienced a significant change in its dual embeddedness, while Philips already experienced this change in the 1970s. But, while ING rather quickly responded, it took a considerable amount of time before Philips did so. This can be explained by the fact that Philips had built up and instituted a specific strategy and culture over the course of three quarters of a century which could not be changed overnight. ING, at the other hand, had just been formed by a merger between three companies and was therefore already in a state of transition. The reason for the transnational restructuring of the two companies is related to both the developments in the fields in which the two companies are embedded, as well as the ideas on how to respond to these developments. Philips experienced intensifying competition from foreign competitors and decided to restructure its organization on the transnational level. Around this time, it was the dominant idea within the business world that firms should focus on their core competencies and sell off everything else. Firms should be "lean and mean" and Philips adopted these ideas. ING, on the other hand, experienced the integration of national financial fields and took advantage of the opportunities this provided to become a transnational financial conglomerate.

Summarizing, the development of transnational firms in the past few decades should not be simply be understood as a process of becoming disembedded from national economic fields, footloose, or stateless, as part of the globalization literature claims. Instead, transnational firms have experienced a profound change in their *dual embeddedness*. The transnational economic field has become more significant and transnational firms have adapted their strategy, structure and policies to the competitive conditions of this field. This resulted in the *centralization of responsibility and decision-making power* on the transnational level.

6 ...and its consequences for their responsibility towards their employees[7]

In the previous section we have demonstrated how in recent decades two transnational firms have been restructured under the influence of economic globalization. Here we will analyze what the consequences of this development have been for their policies and responsibility towards their employees. We, thereby, focus on changes in their production facilities, the employment relationship, the reconstruction of their HR departments and the development of their corporate labor policy in general.

The restructuring process Philips set in motion at the end of the 1980s and beginning of the 1990s included the centralization and outsourcing of production capacity. Philips' factories in the Western world – and the Netherlands is a prime example of this development – were, first, centralized and, later, most of its production capacity was either sold or outsourced to Eastern Europe and Asia. This resulted in a sharp reduction of the number of people employed by Philips in the Western world, from more than 200,000 in 1986 to around 50,000 in 2006.[8] ING only outsourced some (small) parts of its production process and the number of people working for ING in the Netherlands fluctuated around 30,000 during the 1990s and 2000s.[9] This, however, does not mean that ING's work force did not change in recent decades. In order to be able to compete in the increasingly

7 See Quak (2012) for a detailed description.

8 Philips Annual Reports 1986 and 2006.

9 See, ING Annual Reports and Quak (2012).

competitive transnational financial field ING automated significant parts of its production process. This did result in the loss of a significant number of jobs, but because many of them were solved by natural labor turnover and this process took an extensive period, major layoffs did not occur. At the same time, many new, especially highly educated, jobs were created. Together, these developments resulted in a significant change in the composition of ING's workforce consisting of a significant increase in the average educational level of ING's employees and, consequently, a higher average salary scale.[10] Philips also experienced a rise in educational level and salary scale, and even on a more dramatic scale as primarily low skilled labor was automated, divested or outsourced. The percentage of manual workers in the Netherlands decreased from around 75% of Philips' total workforce in the mid 1970s to around 40% at the end of the 2000s (Quak 2012). For both firms, these changes were set in motion to become better equipped to compete in the transnational economic field and obtain a dominant position.

Besides a significant change in the composition of their work force, and a significant reduction of Philips' work force, the transnational restructuring of both companies was also characterized by a change in the employment relationship. During most of the twentieth century the employment relationship was characterized by lifetime employment. People started working at both companies, or, in ING's case, its predecessors, early in their career and remained loyal for most or even their entire career. In return, these companies took care of their employees through a wide variety of social arrangements and took responsibility for the development of their career. Even though both companies were not obliged to do so from a legal standpoint, this was in line with common practice in the Netherlands, reflecting their implicit corporate social responsibility.

In the beginning of the twentieth century Philips experienced a shortage of labor in the Eindhoven region. In response, it attracted workers from other parts of the country and invested in housing projects and the social infrastructure of the city. After the Second World War, the relationship with its employees was formalized in a social provision in the company statutes: "To safeguard the interests of all stakeholders, the company will strive for long-term prosperity and maximum useful employment" (Haas 2000: p. 34). Philips was not legally obliged to insert this social provision and, when the relationship with its employees started to change after the economic crises of the 1970s, it was deleted from the company statutes in a 1982 shareholder meeting. This illustrates Philips'

10 ING's collective labor agreement comprises a 15-point scale. While the average salary scale was 6.7 in 1993, this grew to 8.0 in 2002 and 8.5 in 2006 as a result of the outsourcing and automation of tasks performed by employees in salary scales 1–5 and the hiring of more highly skilled personnel on scales 9–12 (Quak 2012).

changing view on its social policy during this period, a view which was characterized as follows by the director of the Dutch Philips Companies in Philips' company magazine in 1988: "The social policy is an integral part of company policy, which means that it has to contribute to both national and international developments. Put differently: the social policy should contribute to the company's competitiveness."[11] Also, in 1992, the director of the Dutch Philips Companies explained that the "social policy, often called personnel policy, does not stand alone; it is an integral part of the general corporate policy. It has to be linked to the business and is dependent on the situation of the company." The "goal of the personnel policy [is to] attract and keep enough qualified employees to reach the company goals."[12] The idea of lifetime employment as the ideal situation for both Philips as well as its employees came to an end. Instead, employees were expected to be flexible and adjust when the economic conditions forced Philips to change its corporate policies and strategies. Also, employees themselves became responsible for the development of their career, while Philips took on a more facilitating role. Finally, with the dismantlement of production facilities in the Eindhoven region, Philips also cut back its spending in the local social infrastructure.

A similar development took place at ING. Like at Philips, the employment relationship at ING's predecessors was characterized by the idea of lifetime employment. The relationship with the customers and employees of one of its predecessors was characterized as follows by one respondent: "We need to build up a strong relationship. Let's have dinner and discuss how I can help you. Don't worry; I'll take care of it."[13] Employees remained loyal for most or even their entire career and ING provided them more than just their salaries. With the intensifying competition from the 1990s onwards this relationship changed. ING increasingly expected its employees to be flexible and willing to change jobs or location if necessary. It was also stated that employees should not expect to work at ING their entire career. "There is still a certain degree of employer responsibility, but part of this responsibility has been transferred to the employee. You have to act, take the initiative, we support it, but you have to do it."[14] During the 1990s and 2000s, the idea of lifetime employment came to an end; responsibility for career development was, at least partly, transferred to the employees.

The end of the long-term commitment between employer and employee is also demonstrated by the desired change in the pension systems at both case

11 *Philips Koerier*, 24 March 1988, p. 3.

12 *Philips Koerier*, 4 July 1992, p. 4.

13 From an interview with a HR manager with 30 years' experience.

14 From an interview with a works council member with 23 years' experience.

study firms, from a defined benefit to a defined contribution system. The total costs of the latter system are more predictable, something which is highly valued on the financial market. This change would mean that the employer exactly knows what the pension system costs every year and that it no longer runs the risk of extra pension costs in the future.[15] So, this change would not be the result of changing pension laws in the Netherlands; instead, it was incited by changes in their economic environment, the increasing importance of financial markets.

Besides a redefinition of risks concerning the factor labor, these firms also experienced a significant restructuring of their HR departments. During the era of lifetime employment this department was, first of all, responsible for all the administrative tasks concerning employees, it was an administrative center. But, second, it also functioned as an advocate for employees, defending their interest vis-à-vis company management. From the 1990s onwards, and especially in the past decade, these departments have been restructured "from a personnel department with primarily administrative tasks into a human resource department operating as a business partner for line management" (Quak 2012: p. 147). This included the automation of administrative tasks; changes in personnel files which were previously administered by employees of the personnel department are now handled by employees or managers themselves through online administrative systems. But, more importantly, this also meant that HR employees are now primarily responsible for aligning the labor policies with the overall corporate strategy. These policies are no longer only developed in line with the conditions of the national economic field; they are increasingly based upon the overall corporate strategy. "Safeguarding the interest of the employees wasn't the sole purpose of the HR department, but (...) they moved further away from the employees in the direction of the organization. Many people experienced it like that. It's now called HR; I have become a human resource, instead of a person. A fundamental shift took place: you have to behave in line with the interests of the organization. (...) For many employees it became more businesslike. Also in the sense that HR does not safeguard my interests anymore, it safeguards the interests of the organization."[16]An additional important part of this development is that it has reduced the head count, and with that the costs, of the HR department.

Next to transforming into a business partner for company management, the HR departments of both case study companies also experienced the (partial) transfer of decision-making power from the national to the transnational level. From the 1990s onwards Philips' transnational HR department slowly grew in size

15 Neither does it have the chance of lower than expected costs in the future, for instance as a result of higher than expected results on the stock market.

16 From an interview with a works council member with 23 years' experience.

and centralized certain tasks previously conducted by the national HR departments. While previously this transnational HR department was only engaged with the policies concerning top management, in the past two decades it developed policies for a larger percentage of Philips' work force. Around one decade later, a similar development took place at ING. In the second half of the 2000s this department started to expand and became responsible for the "deployment, development and initiation of [HR] strategy (...) the implementation takes place at the national level."[17]

When we move our attention to the corporate policies of both companies, we can conclude that decisions concerning various domains within both companies – such as marketing, finance and production – are increasingly taken by managers with transnational responsibilities. Both companies, for instance, have implemented or reinforced their global brand policy (Quak 2012). Decisions concerning their labor display a more mixed picture. First of all, different parts of their corporate labor policy display various degrees of embeddedness in national fields; certain parts are more regulated through national institutional arrangements than others. The organizational structure of both case study companies, including their HR departments, have been restructured in line with the requirements of the transnational economic field on which both companies have become increasingly dependent. And the reward systems of both companies have also experienced a significant degree of transnational restructuring. Rewards of individuals or groups of employees are still primarily determined on the national level (in the Netherlands on the basis of a collective labor agreement), but the development and deployment of transnational guidelines affects both the level and composition of the reward system. The recruitment, hiring, training and dismissal of employees are still largely conducted on the national level. It is primarily for employees with transnational responsibilities, such as current and future top executives, that firms construct transnational guidelines and policies. Finally, the influence of employees on the way they conduct their everyday work and on broader company affairs has weakened since firms were restructured on the transnational level. Despite initiatives that transcend national borders – such as the European works council and transnational employee surveys –, in general the position of workers in the Netherlands has weakened. Both companies have been restructured as a result of which the works councils no longer have the executive board as their speaking partner, but Dutch management instead. "It (...) feels like we have lost the executive board."[18]

17 From interview with senior HR manager with 5 years' experience at ING.
18 Comment by chairman of Philips' works council. *Philips Koerier*, 16 December 1982, page 16.

Besides a differentiation between different parts of their labor policies, we observed a differentiation between different levels of employees within the two case study companies. Those parts of the production process which can be conducted more efficiently through outsourcing or automation, have, for a significant part, been transferred abroad to low cost countries or labor has been replaced by technology. Employees with national responsibilities are being serviced by the national HR departments through policies that are targeted at the situation in the specific national field. And those employees with transnational responsibilities are being serviced by the transnational HR department. This latter department is increasingly concerned with policies which before were the responsibility of the national HR department by issuing transnational guidelines to which the national departments have to comply.

On the basis of this description of Philips' and ING's policies concerning their employees, we argue that a race to the bottom does not accurately describe the way these firms' labor policies have developed in recent decades. Instead, we argue that it is better to speak of processes of centralization, diversification and instrumentalization. Both companies experienced a *centralization of decision-making power on the transnational level*, both in general as well as with regard to its employees. The *polarization* consists of a differentiation concerning different levels of employees within the organization as well as a differentiation concerning different parts of the personnel policy. The top level employees are serviced by the transnational department, the lower levels are serviced by the national personnel department but constrained by guidelines from the transnational department and those parts of the production process which can be executed more cost efficient abroad are transferred to low cost countries. The differentiation concerning different parts relates to rewards, mobility, employee representation and the organizational structure. Finally, the transformation of the HR department into a business partner to company management, the changing employment relationship increasing responsibility of employees and the proposed change in the pension system represent labor becoming *instrumental* in the pursuit of the company goals.

7 Conclusion

Firms operating across national borders are said to have become disembedded, footloose, and stateless. They no longer depend on the other actors in national economic fields in which they are embedded, such as the national government and organized labor, and they are able to independently determine their policies and strategies without taking these actors into account. It was argued that this caused a race to the bottom in wages, working conditions and collective redistribution mechanisms, such as the social security system. This would imply that the transnational restructuring of economic activities and firms would have eroded the willingness of these firms to take responsibility for other actors than their shareholders. In this article we researched these claims for one of their stakeholders, their employees. We conducted case studies on two transnational firms in the Netherlands – Philips and ING – to understand the development of their policies and responsibilities concerning their employees in recent decades.

As a result of their expansion across national borders these two firms experienced a significant change in their dual embeddedness in national and transnational economic fields, with the latter gaining importance. To deal with this change they adjusted various parts of their corporate policies to the competitive conditions of both fields. To comply with the competitive conditions of the transnational economic field, those parts of the company that can be dealt with more efficiently in other countries are outsourced. Also, *centralized* policies and frameworks are created or reinforced *on the transnational level* and implemented on the national level. Finally, those parts of the corporate labor policy that are constrained by national institutional arrangements, cannot be organized on the transnational level or for which there is a disincentive to organize on the transnational level, are the responsibility of the national HR departments. This differentiation in labor policies resulted in a *polarization* consisting of, among others, policies aimed at lower levels of personnel and policies aimed at higher level employees. The latter are primarily serviced by the transnational HR department whereas lower level employees are serviced by the national HR departments. Finally, in line with the competitive conditions of the transnational economic field certain risks regarding labor have been or are in the process of being transferred to employees. Employees themselves have become responsible for the development of their career and a risk shift concerning pensions is aspired by both firms. Also, their HR departments have been restructured to act as a business partner for company management. This represents the *instrumentalization* of labor and labor policy.

Transnational firms' responsibility for their employees is formed under a certain balance of power between these firms, labor and regulating institutions. In recent decades this balance of power for both companies has changed; they experienced a shift in their dual embeddededness and obtained a stronger position vis-à-vis their employees and regulating institutions. This shift was accompanied by the partial centralization of their labor policy on the transnational level, the polarization of this policy and the instrumentalization of labor. These developments also had their consequences for the responsibility these firms take for their employees in the Netherlands, a country where business responsibility tend to be more “implicit”. While they wanted to become more flexible to be able to adjust to changing economic conditions, the idea of lifetime employment came to an end and employees have become increasingly responsible for their career development. Also, while these firms have become less dependent on employees in individual countries, labor has become instrumental in the pursuit of the company goals. This does not imply that they no longer take responsibility for their employees beyond what they are obliged to from a legal standpoint, but it does imply that, during a time of economic globalization, their CSR towards their employees was reduced and restructured.

So, even though recently some, primarily European, firms have become more explicit about their commitment to CSR (Matten and Moon 2008), this does not necessarily mean that the responsibility these firms take for their stakeholders, other than their shareholders, has increased. When analyzing firms’ CSR policies, it is of great importance to look at both their implicit and their explicit CSR and take the context within which these policies are developed into account, especially in a time of economic globalization when firms are becoming less dependent on some of their stakeholders, such as employees and nation states.

References

Atzema, O., E. Wever and M. Krol. 2008. “Philips. A global electronics firm restructuring its home base.” In: P. Pellenbarg and E. Wever (eds.), *International business geography: case studies of corporate firms*. New York, NY: Routledge.

Bourdieu, P. 2005. *The social structures of the economy*. Cambridge: Polity Press.

Caroll, A. B. 1979. “A three-dimensional conceptual model of corporate social performance.” *Academy of Management Review* 4(4): 497–505.

Carroll, A. B. and K. M. Shabana. 2010. “The business case for corporate social responsibility: review of concepts, research and practice.” *International Journal of Management Reviews* 12(1): 85–105.

Convert, B. and J. Heilbron. 2007. “Where did the new economic sociology come from?” *Theory and Society* 36(1): 31–54.

Cooke, W. N. 2007. “Multinational companies and global human resource strategy.” In: P. Boxall, J. Purcell and P. Wright (eds.), *The Oxford handbook of human resource management*. Oxford: Oxford University Press, pp. 489–508.

Fligstein, N. 1996. “Markets as politics: a political-cultural approach to market institutions.” *American Sociological Review* 61(4): 656–673.

Fligstein, N. 2001a. *The architecture of markets: an economic sociology of twenty-first century capitalist societies*. Princeton, NJ: Princeton University Press.

Fligstein, N. 2001b. “Social skill and the theory of fields.” *Sociological Theory* 19(2): 105–125.

Freeman, R. E. 1984. *Strategic management: a stakeholder approach*. Boston, MA: Pitman.

Friedman, T. L. 2005. *The world is flat*. New York, NY: Farrar, Straus & Giroux.

Gabel, M. and H. Bruner. 2003. *Global Inc.: An atlas of the multinational corporation*. New York, NY: The New Press.
Granovetter, M. 1985. "Economic action and social structure: the problem of embeddedness." *American Journal of Sociology* 91(3): 481–510.
Haas, A. de. 2000. *1900–2000 "100 jaar Personeelsbeleid" van N.V. Philips Gloeilampenfabrieken naar Koninklijke Philips Electronics N.V.*, Eindhoven: Philips.
Heilbron, J. and S. Quak. 2012. "Changing labour policies of transnational corporations. The decrease and polarisation of corporate social responsibility." In: R. van der Veen, P. Achterberg and M. Yerkes (eds.), *The transformation of solidarity. changing risks and the future of the welfare state*. Amsterdam: Amsterdam University Press, pp. 139–163.
Heilbron, J., J. Verheul and S. Quak. 2011. "Aandeelhouders Eerst! De Opkomst van 'Aandeelhouderswaarde' in de Verenigde Staten." *Sociologie* 7(1): 21–42.
Jacoby, S. M. 2005. *The embedded corporation*. Princeton, NJ: Princeton University Press.
Jensen, M. C. and W. H. Meckling. 1976. "Theory of the firm: managerial behavior, agency costs and ownership structure." *Journal of Financial Economics* 3(4): 305–360.
Kahancova, M. 2007. *Making the most of diversity: social interaction and variation in employment practices in a multinational company*. Amsterdam: University of Amsterdam.
Kalb, D. P. 1995. *Expanding class: power and everyday politics in industrial communities, North-Brabant illustrations, 1950–1950*. PhD thesis, University of Utrecht.
Katzenstein, P. 1985. *Small states in world markets: industrial policy in Europe*. Ithaca, NY: Cornell University Press.
Levy, D. L. and A. Prakash. 2003. "Bargains old and new: multinational corporations in global governance." *Business and Politics* 5(2): 131–150.
Lim, A. and K. Tsutsui. 2012. "Globalization and commitment in corporate social responsibility: cross-national analyses of institutional and political-economy effects." *American Sociological Review* 77(1): 69–98.
Matten, D. and J. Moon. 2008. ""Implicit" and "Explicit" CSR: a conceptual framework for a comparative understanding of corporate social responsibility." *Academy of Management Review* 32(2): 404–424.
Mishra, R. 1999. *Globalization and the welfare state*. Cheltenham, UK: Edward Elgar.
Moon, J., A. Crane and D. Matten. 2005. "Can corporations be citizens? Corporate citizenship as metaphor for business participation in society." *Business Ethics Quarterly* 15(3): 427–451.
Quak, S. 2012. *Transnational firms and their corporate labor policy: case studies on Philips and ING in the Netherlands and the United States, 1980–2010*. PhD thesis, Erasmus University Rotterdam.
Scharpf, F. W. and V. A. Schmidt. 2000a. *Work and welfare in the open economy; Vol.1: From vulnerability to competitiveness*. Oxford: Oxford University Press.
Scharpf, F. W. and V. A. Schmidt. 2000b. *Work and welfare in the open economy; Vol.2: Common challenges*. Oxford: Oxford University Press.
Sluyterman, K. E. 2005. *Dutch enterprises in the twentieth century: business strategies in a small open economy*. London: Routledge.
Smit, J. 2008. *De Prooi*. Amsterdam: Prometheus.
Useem, M. 1996. *Investor capitalism: how money managers are changing the face of corporate America*. New York, NY: Basic Books/HarperCollins.
Westerhuis, G. 2008. *Conquering the American Market. ABN AMRO, Rabobank, and Nationale Nederlanden working in a different business environment, 1965–2005*. Amsterdam: Boom.
White, H. C. 1981. "Where do Markets come from?" *American Journal of Sociology* 87(3): 517–547.

 DOI 10.1515/bap-2012-0022 — Business and Politics 2012; aop

Corporate Responsibility, Multinational Corporations, and Nation States

Kernaghan Webb[a,*]

Multi-level corporate responsibility and the mining sector: Learning from the Canadian experience in Latin America

Abstract: The primary research question animating this article revolves around understanding how multinational mining corporations (MMCs) are responding to the twin pressures of globalization and localization to develop Corporate Responsibility (CR) approaches that apply at a global level and to their subsidiaries in various different jurisdictions, with particular attention being paid to the role of home, host and international factors in shaping the CR approaches of MMCs. The focus of attention is on the experience of Canadian MMCs in Latin America, using as an illustration the particular CR response of one Canadian MMC at its subsidiary Guatemalan mining operation. Research suggests that home country factors play an important role in shaping corporate CR approaches in a manner which take into account the circumstances extant at subsidiary operations in developing countries, as do transnational advocacy networks and global normative instruments.

[a] The author would like to express his appreciation to the editors of this special issue, as well as to participants in the workshop where an earlier version of this paper was presented, and to anonymous reviewers, for their helpful comments. The author gratefully acknowledges the support of the Social Sciences and Humanities Research Council of Canada for financial assistance concerning the background research for this article.
***Corresponding author: Dr. Kernaghan Webb,** LL.B., LL.M., LL.D. Associate Professor, Department of Law and Business, Ted Rogers School of Management, Institute for the Study of Corporate Social Responsibility, Ryerson University, 350 Victoria Street, Toronto, ON, Canada M5B 2K3, Phone: 416-979-5000 ext. 2478, Fax: 416-979-5266,
E-mail: kernaghan.webb@ryerson.ca. Website: www.ryerson.ca/csrinstitute

1 Introduction

Scholars have variously noted and commented on the increasing attention devoted over the past three decades by public authorities, non-governmental organizations (NGOs), communities, responsible investment (RI) actors, industry associations, and multinational mining corporations (MMCs) to the environmental, social and economic (ESE) impacts of mining, to the development of an array of normative[1] instruments (legal and otherwise) that articulate ESE standards of care, and to the increasingly common practice of MMCs adopting corporate responsibility[2] (CR) policies and reporting on CR performance.[3]

Szablowski (2002) notes that starting in the 1990s, a transformation in the structure of the world mining industry took place, characterized by liberalization of mining policies and regulations in developing countries to encourage foreign investment, as well as increased market demand and technological advances that have led to an opening up of new, often remote areas to mining exploration and development. Jenkins (2004) has observed that a variety of factors – the finite nature of mining resources, the diverse environmental impacts, the significant economic effects on communities and countries, and the potentially serious social implications flowing from mining activity – have stimulated the sector to be one of the most prolific disclosers of ESE performance information. A KPMG global mining reporting survey for 2006 (the latest survey available) revealed that 40 out of 44 major global mining companies were reporting CR-oriented performance.[4]

Addressing the concerns of local communities pertaining to the ESE impacts of mining represents a key CR challenge for MMCs, as they attempt to reconcile

1 For the purposes of this paper, norms are defined as collectively held understandings of acceptable behavior within a given realm. Finnemore 1996.

2 This paper will follow the approach of other scholars who use the terms “corporate responsibility” and “corporate social responsibility” (CSR) inter-changeably (e.g., Garriga and Mele 2004; Shamir 2004; Vogel 2005). CSR has been characterized by Okoye (2009) as meeting the criteria for an “essentially contested concept” (Gallie 1956). Okoye (2009) describes CSR as a complex and evolving phenomenon with a diversity of descriptive and normative justifications, addressing a dynamic relationship between corporations and different elements and levels of society. Dahlsrud (2008) has noted the considerable diversity of definitions of CSR employed by academics and others, but also concludes that there is fairly widespread agreement around the idea that CSR involves stakeholder and voluntary elements, pertaining to the ESE dimensions of corporate activity. Consistent with Dahlsrud’s analysis, and leading scholars such as Carroll (1999) this paper follows Prakash (2000: pp. 3–6) in defining CR as the obligations of companies towards their stakeholders in the areas of human rights, labor, and the environment, with compliance with law as the minimum acceptable behavior, and CR extending to encompass voluntary commitments or obligations that go beyond regulatory requirements.

3 See, e.g., Cragg and Greenbaum 2002; Kapelus 2002; Szablowski 2002, 2007; Bird 2004; Jenkins 2004; Puplampu 2004; Whiteman 2004; Imbun 2006; Pegg 2006; Dashwood 2007, 2011; Imai et al. 2007; Szablowski 2007; Sagebien et al. 2008; Campbell 2011; Lindsay 2011; Odell 2011; Sagebien and Lindsay 2011; Sosa 2011; Webb 2011.

4 KPMG 2006.

their corporate CR approaches with factors such as: diverse legal requirements; varying regulatory governance capacities; local expectations as well as global norms; the varied interests of individuals and groups located near the mine operation; and pressure from advocacy organizations. The central importance of addressing community concerns is well captured by one commentator:

> *For mining companies, a most salient risk is opposition from the local communities in which they operate. Unlike manufacturing multinationals, which have greater mobility, mining companies choose their location based on the availability of metals to extract. Failure to establish and maintain good community relations could result in a company losing its social licence to operate, even where the company possesses a regulatory licence to operate. This can drive mining companies to adopt compliance measures beyond the minimum in order to meet social expectations.*[5]

The primary research question animating this paper revolves around understanding how MMCs are responding to the twin pressures of globalization and localization to develop CR approaches that apply at a global level and to their subsidiaries in various different jurisdictions. Particular attention is devoted to understanding the role of home, host and international factors in shaping MMC CR approaches. For the purposes of this paper, multi-level CR approaches of MMCs represent the dependent variable, with home and host country and international factors or effects representing key independent variables. The roles and nature of home, host and international factors are explored using the situation of Canadian MMCs in Latin America as a focal point of discussion, and in particular, drawing as an illustration on the experience of one Canadian MMC (Goldcorp) and the development of its corporate Human Rights Policy as part of its CR approach at its wholly owned subsidiary (Montana Exploradora) at its Marlin Mine operation in Guatemala.

It might be assumed that an MMC's CR approach would consist of a single and comprehensive policy and decision-making framework developed at its home country headquarters, and then implemented uniformly and consistently at subsidiary operations around the world. Thus, for example, Helin and Sandstrom (2010) talk about "a traditional view" of a multinational corporation's code of ethics being pushed down the hierarchy by top management to apply to subsidiary employees wherever they operate, perhaps in spite of differences in local contexts.

Research for this paper suggests that with respect to Goldcorp, a more dynamic multi-level approach to CR seems to be at work, involving an iterative

5 Dashwood 2007.

and ongoing home-host-global interaction, where corporate level CR policies are adjusted to reflect local conditions, as well as other factors. Subsidiaries of MMCs in developing countries often face different and challenging operating conditions that may necessitate tailored CR approaches. In effect, the particular characteristics of the local, host country environment may interact with global and home country factors to stimulate distinctive CR responses that can also act as laboratories or learning contexts for new elements or subsequent iterations of the MMC's global CR approach. In keeping with the observation of Griffin and Koerber (2011), commitment to global CR approaches while responding to distinctive local pressures can create positive tensions that unleash innovations within MMCs.

Analysis in this article concerning the CR activities of Goldcorp suggests that home country factors play a pivotal role in pressuring the MMC to respond to local situations in host countries, as do transnational advocacy networks and global norms articulated in international instruments. With respect to Goldcorp, a Canadian shareholder resolution seemed to have played a critical, catalyzing role with respect to development of Goldcorp's HR policy, first at its Guatemalan subsidiary, and later at the corporate level. The examination undertaken here of the home, host, and global factors supports the proposition that in navigating the socio-political non-market environment[6] pertaining to CR issues, MMCs may face challenging and complex multi-level dynamics. MMCs can be seen as strategic players grappling with home and host country pressures while also reflecting their broader global normative environment, as articulated by a range of state and non-state actors operating at various levels.

This article draws on institutionalist perspectives, discussed in Section 2, to assist in explaining the global and local context for development of multi-level MMC CR approaches. The global, home and host country normative contexts for CR activity in the mining sector are then examined in Sections 3, 4, and 5. With this background, in Section 6, analysis is undertaken of how Goldcorp has navigated and responded to home, host and global factors to develop its HR policy as part of its multi-level CR approach. Then, conclusions are provided.

6 Baron 1995. The author states that for business managers, the challenge of understanding nonmarket forces – government, interest groups, activists, and the public – is frequently more difficult than understanding the market environment. He refers to this as the "nonmarket environment."

2 Institutionalist theoretical perspectives relevant to multi-level MMC CR

To assist in understanding the dynamics associated with development of multi-level MMC CR approaches, this paper draws as a theoretical basis for analysis on the synthesis of institutionalist perspectives from organizational theory and constructivist approaches from international relations theory suggested by Dashwood (2007). As noted by Dashwood (2007), institutionalist perspectives from organizational theory shed light on the external context, as well as intra-organizational factors affecting MMC decision-making and action. An institutionalist perspective holds that firms are embedded in a larger social environment beyond the marketplace, which induces firms to adhere to social norms.[7] An institution has been defined by March and Olsen (1999: p. 208) as "a relatively stable collection of practices and rules defining appropriate behavior for specific groups of actors in specific situations."

Firms evaluate among options of potential behavior according to a "logic of consequences" (considering costs and benefits) or a "logic of appropriateness" (considering the alignment of options with conceptions by the firm of its role and identity). Rational choice institutionalism assumes that actors are motivated by a logic of instrumentality but that their actions are institutionally constrained.[8] From this perspective, it is not just the presence of a norm or law that matters, but also the extent to which there is stakeholder monitoring of conformity with the norm or law, and some form of enforcement.[9] Non-state actors such as NGOs and networks of such actors, referred to by Keck and Sikkink (1998) as transnational advocacy networks (TANs) can play important roles in monitoring corporate behavior and mobilizing pressure on firms to act in conformity with norms.[10] Keck and Sikkink (1998) define TANs as communicative structures whose members are primarily motivated by shared principled ideas or values, engaging in the voluntary, reciprocal, and horizontal exchange of information and services.[11] Both domestic and international NGOs play central roles in TANs, which may also include local social movements, the media, intellectuals, and others.[12]

A firm's social (non-market) environment, or "organizational field"[13] consists of actors that purport to articulate acceptable behavior, including governments,

7 Dashwood 2007: p. 50.
8 Campbell 2006: p. 926.
9 Campbell 2006: p. 926.
10 Campbell 2006: p. 931.
11 Keck and Sikkink 1998: p. 30.
12 Keck and Sikkink 1998: p. 9.
13 Hoffman 2001: p. 7.

NGOs, industry associations, and others. A firm's motivations to address concerns about its perceived legitimacy to engage in certain activities, may drive it to adopt practices and standards of its peers (isomorphic behavior, catalyzed through coercive, mimetic and normative mechanisms, per DiMaggio and Powell 1983) and to address distinctive local legal, cultural and other factors that may vary from one country to another.[14] Suchman (1995: p. 574) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." It has been suggested that institutions constrain and encourage behavior of organizations through regulative, normative and cognitive pillars.[15] Synthesizing the work of others, Dashwood (2007: p. 53) notes that the variables in the external environment potentially affecting firm behavior encompass political, legal, and economic factors, including the level of regulatory and public scrutiny, the extent of various types of risk to firm, the degree of community concern and pressure on the firm, reputational considerations, market opportunities, CR positions and activities of industry associations, and the positions of NGOs.

Observing that institutionalist approaches within organizational theory reflect debates concerning the degree of agency of firms to operate in a particular field that are mirrored in the constructivist approach within international relations, with the language of norms used in international relations constructive literature being similar to the meaning of institution employed by institutionalists in organization theory.[16] Dashwood (2007) concludes that it is useful to join the two literatures by looking at institutional dynamics and norms to understand why an MMC would adopt a particular CR approach. A similar approach is adopted here, and therefore discussion and analysis of the national and global CR norms pertaining to mining activity, and the home, host and global actors associated with these norms, including transnational advocacy networks, is undertaken in this paper.

3 The international normative context for Canadian MMC CR in Latin America

Scholars have noted the development of a growing and diverse global regulatory structure applying to businesses, with significant roles being played by inter-

14 Rosenzweig and Singh 1991.
15 Scott 1995.
16 E.g., Keck and Sikkink 1998.

governmental organizations, standards bodies, non-governmental organizations, and others.[17] A wide number of international instruments articulate standards of behavior that apply or could apply to mining activity. As such, these instruments form a key part of the normative institutional context within which global mining activity takes place, and their existence can influence MMC CR behavior.

That these instruments have this potential effect is evident when MMCs explicitly refer to them by name in their CR approaches and related CR communications, as is the case with Goldcorp (see Appendix A for a listing of 26 international instruments referred to by Goldcorp in its CR-related policies and documents). Home and host country actors also regularly draw on and refer to international instruments in their activities intended to influence MMC CR behavior (see Sections 3 and 4).

For the purposes of discussion here, international instruments can be divided into two main categories: those developed by intergovernmental entities (e.g., entities that are part of the United Nations, the World Bank's International Finance Corporation, and the Organization for Economic Cooperation and Development), and those developed by non-state international entities (e.g., the International Organization for Standardisation, the International Council of Mining and Metals, and the Global Reporting Initiative). Instruments that emanate from intergovernmental entities have a special status, since they represent normative statements by agglomerations of states. This having been said, non-state international instruments can also be highly influential with respect to MMC behavior, and Goldcorp has explicitly committed to or referred to several of these instruments.

3.1 Intergovernmental instruments

Intergovernmental instruments relevant to global mining activity can be usefully divided into two main categories: those that are designed to primarily apply at first instance directly to states, and those that are intended to apply directly to corporations. Intergovernmental instruments that are designed to primarily apply to states can in turn be subdivided into those that are intended to be legally binding when ratified and implemented by states ("hard law" instruments such as international treaties), and those that are referred to as "soft law" and are at first instance non-binding, such as declarations, guidelines, and principles.[18] There are situations where intergovernmental treaties are not ratified by

17 Braithwaite and Drahos 2000.
18 Hillgenberg 1999.

states, or are ratified by states and then not implemented. In such situations, the legal status and operational effect within a particular state is less clear.[19] Even in situations where the legal status of an intergovernmental instrument is unclear, it is not uncommon for MMCs to refer to and commit in some way to the wording of such instruments. For example, as part of its Human Rights policy, Goldcorp has committed to respecting the terms of ILO Convention 169, the *Indigenous and Tribal Peoples Convention*, even though Guatemala has been criticized for not implementing this convention (see Section 5).

Turning to intergovernmental "soft law" non-binding instruments that are directed specifically at transnational corporations, a number apply to and are drawn upon by Canadian mining companies operating in Latin America. For example, Goldcorp has indicated its support for or commitment to respect the terms of three soft law intergovernmental instruments: the OECD Multinational Enterprise Guidelines, the IFC Performance Standards (provisions pertaining to resettlement) and the UN Global Compact.

3.2 Non-state and hybrid international instruments

In addition to intergovernmental instruments, a range of non-state or hybrid state/non-state international instruments apply to mining operations, and are referred to or applied by Canadian mining companies. These instruments – eight of which Goldcorp has indicated its support for – are voluntarily applied by firms, often in response to perceived pressure from consumers, supply chain partners, peers, or others.[20] These instruments may play a particularly important role where state-based, formal regulatory regimes are weak.[21] It is not uncommon for industry participants to play key roles in development and implementation of non-state instruments, and in such situations, peer pressure may be an important factor in stimulating MMCs to adopt them. Good examples of a peer-based instrument is the Sustainable Development Framework of the International Council on Mining and Metals, adopted by the world's major mining companies (including Goldcorp), and the Cyanide Code, in which gold mining companies played a major role (Goldcorp has committed to complying with the Cyanide Code).

19 It is also possible for intergovernmental instruments that originally might be characterized as "soft law" to evolve through state practice to be recognized as part of "customary international law," and thereby develop a more binding status.

20 Prakash 2000 and Borzel et al. 2011.

21 Borzel et al. 2011; Prakash and Potoski (2012).

Some of the non-state instruments involve third party certifications (e.g., ISO 14001, OHSAS 18001, and the Cyanide Code) or involve performance reporting elements (e.g., EITI, GRI, and the Carbon Disclosure Project), whereas certification and reporting requirements are less common with intergovernmental instruments. The Extractive Industries Transparency Initiative (EITI) is an example of a hybrid state-non-state instrument that Goldcorp has referred to in its documents.

A final point to note about the international normative context for mining is that it is in a state of continual evolution. For example, conceptions of the obligations of transnational businesses to respect human rights have changed considerably over the past decade, where a failed U.N. "Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights" has now given way to the "Protect, Respect, Remedy" Business and Human Rights Framework and Principles spearheaded by John Ruggie, Special Representative of the UN Secretary General, on behalf of the UN Human Rights Council.[22] The significance of this evolving global normative context for MMCs, as well as for governments, communities, civil society organizations, and others, is that the subject of corporate responsibility, and approaches to addressing it, are "moving targets," requiring constant revisiting and adjusting as understandings change.

4 The Canadian normative context bearing on overseas CR activity of Canadian MMCs

4.1 Positioning Canadian mining activity in the global context

Canada is a major player in the mining and minerals sector.[23] In 2008, it was reported that over 75% of the world's mining companies undertaking exploration and development were headquartered in Canada.[24] Canadian stock exchanges were reported in 2009 as providing 31% of the world's mine equity, and handling 81% of the world's financing transactions over the period 2004–2009.[25] According to 2007 data, there are a total of 1980 companies in the global mining industry, of which 1116 are Canadian, 527 are Australian, 110 are headquartered in the United States, and 117 headquartered in Europe.[26] According to 2008 data, of 9987 mineral

22 Ruggie 2008.
23 Russell et al. 2010.
24 Government of Canada 2009.
25 Mining Association of Canada 2009.
26 Elizalde 2010.

projects financed in Canada on the TSX and TSX-V stock exchanges, 49% pertain to projects taking place outside of Canada.[27]

A major focal point of Canadian MMC activity outside of Canada is Latin America. In 2005, Canadian mining companies owned over 1300 mineral properties in Latin American and spent over $400 million on exploration in the region, accounting for over 37% of the total exploration budget in Latin America.[28] Latin America has been described as the single most important overseas destination for Canadian mining capital, with more than half of Canadian mining companies' global assets reported to be located in Latin America in 2008, at a value of close to (Cdn) $57 billion.[29]

According to a 2009 study, of 171 alleged CR-oriented violations by mining companies around the world since 1999, 33% involved Canadian companies[30], and 57% of alleged CR-oriented violations involved non-Canadian companies. Discussions of allegations of ESE-related misconduct perpetrated at Latin American operations of Canadian MMCs have been variously compiled.[31]

Perhaps not surprisingly, given the comparatively high global profile of Canadian MMCs and the critical scrutiny of their environmental, social and economic practices, many Canadian MMCs are implementing some form of corporate responsibility approach. A 2009 study indicated that of 124 Canadian mining companies with publicly available annual reports and websites, 78% had some sort of CSR policy.[32]

4.2 Canadian political-level attention focused on overseas CR activities of Canadian MMCs

A key turning point in terms of Canadian political attention directed at the overseas CR activities of Canadian MMCs was 2005, when a Parliamentary Standing

27 Elizalde 2010.

28 Sagebien et al. 2008.

29 Keenan 2010.

30 CCSRC 2009.

31 See e.g., Whiteman and Mamen 2002; Muradian et al. 2003; Odell and Silva 2006; Imai et al. 2007; Fulmer et al. 2008; Sagebien et al. 2008; CCSRC 2009; Keenan 2010; Maheandiran et al. 2010; North 2011. In terms of non-Canadian firms, incidents of alleged ESE misconduct at the Latin American operations of non-Canadian extractive sector firms have been discussed by a number of scholars (see, e.g., Olsen 2002; Whiteman and Mamen 2002; Fossgard-Moser and Bird 2004; Munoz et al. 2007; Bebbington et al. 2008; Zamprile and Llorente 2009; Collins 2011; Kemp et al. 2011).

32 CCSRC 2009.

Committee expressed concern about the adequacy of Canadian laws to address the ESE activity of the Canadian extractive sector in its non-Canadian operations, especially with respect to accountability and conformance vis-a-vis human rights and environmental standards.[33] This led eventually to the adoption of the federal government's policy response in March, 2009, "Building the Canadian Advantage: A Corporate Social Responsibility (CSR) Strategy for the Canadian International Extractive Sector."[34]

The "Building the Canadian Advantage" strategy represents the current foundational Canadian public policy document pertaining to overseas Canadian MMC behavior, and includes four pillars: enhancing the governance capacity of developing countries to manage the extractive sector, with the Canadian International Development Agency having the lead; promotion of CSR performance and reporting as embodied in the OECD Multinational Enterprise (MNE) Guidelines, IFC Performance Standards, Voluntary Principles on Security and Human Rights, and the Global Reporting Initiative; support for the development of a Centre for Excellence in CSR; and establishment of an Extractive Sector Counsellor to assist stakeholders in the resolution of CSR issues pertaining to the activities of Canadian extractive sector companies operating abroad.[35]

4.3 Canadian corporate law provisions potentially applying to Canadian MMC overseas CR activities

One way in which Canadian law is relevant to Canadian mining activity in Latin America is through corporate law obligations imposed on directors,[36] and share-

33 House of Commons 2005.

34 Government of Canada 2009. A private member's bill (Bill C-300) attempted to create such a new CR legal instrument but it was narrowly defeated in 2010 (Dagenais 2010). If Bill C-300 had passed it would have mandated that firms receiving funding from the Export Development Corporation and the Canada Pension Plan meet binding CR standards, with failure to do so preventing the company in question from further funding, and it would have included a mechanism for investigating complaints of non-conformance with the aforesaid CR standards, regardless of whether or not the company in question had consented to be the subject of the investigation (Dagenais 2010).

35 Goldcorp's Guatemalan operations have been the subject of a complaint raised pursuant to the OECD MNE Guidelines, as discussed in Section 5.

36 In the BCE Inc. v. 1976 Debentureholders (2008), the Supreme Court of Canada held that directors owe a fiduciary duty to ensure the long-term best interests of the corporation viewed as a "good corporate citizen", and in the course of their duties may consider a variety of interests including communities, consumers, shareholders, government, and the environment (Webb 2011).

holder proposals contained in this law. A relevant feature of shareholder proposals in this context is the possibility that such actions will spark direct engagement of directors and shareholders (and in turn, other stakeholders) on environmental, social and economic issues. The shareholder proposal mechanism has been made more accessible to a broader range of issues as a result of amendments to the *CBCA* that were passed in 2001.[37] In Section 5, the application of this provision to Goldcorp's Guatemalan operations is discussed.

4.4 Anti-corruption law applying to overseas CR activities of Canadian MMCs

Canada is a signatory to several different international treaties pertaining to anti-bribery and corruption.[38] In fulfillment of its international obligations under these treaties, Canada has passed the Corruption of Foreign Public Officials Act (CFPOA). Pursuant to this legislation, it is possible for the federal government to launch a criminal proceeding in Canada against Canadian companies that have engaged in bribery activities with public officials in non-Canadian jurisdictions, where there is a "real and substantial link" between the offence and Canada.[39] Pursuant to this legislation, a Canadian mining company has pled guilty concerning non-compliant overseas activities,[40] and others are under investigation.[41] It can be seen, therefore, that Canadian MMCs with operations in Latin America are susceptible to criminal charges being brought under the CFPOA, and in this sense the CFPOA is a driver for Canadian MMCs such as Goldcorp to address the anti-bribery issue as part of their overseas CR approaches.

4.5 Securities law provisions applying to overseas CR activities of Canadian MMCs

Pursuant to Canadian securities laws, every Canadian reporting issuer must file Management Discussion and Analysis statements and Annual Information Forms.[42] Relevant provisions require reporting by a company on any material and relevant issues concerning land use or political or environmental issues and

37 Van Duzer 2003.
38 Government of Canada 2009.
39 Government of Canada 2009.
40 Krugel 2011.
41 Poppelwell 2010.
42 Dhir 2009.

events or uncertainties that are reasonably likely to have an effect on a company's business, although commentators have indicated that reporting under these provisions has been somewhat formulaic (e.g., use of boiler plate, generic language) and enforcement of the provisions has been minimal to date.[43] Notwithstanding these inadequacies, it can be seen that these provisions legally compel disclosure of material ESE-related problems wherever a company operates, and as such, they act as a legal driver for MMCs to adopt proactive CR approaches that would mitigate the need for such disclosures.

4.6 Private tort law and overseas CR activities of Canadian MMCs

It is possible under Canadian tort law for persons to bring private lawsuits against Canadian mining companies concerning their overseas operations, where a real and substantial connection to Canada can be established.[44] While no such lawsuits have been successful so far, several are currently before the courts.[45] The possibility of a successful legal action concerning ESE issues at the Latin American operations of Canadian MMCs represents a legal and reputational risk, and in this regard, Canada's private tort law can be considered a driver for MMCs such as Goldcorp to adopt proactive CR approaches that would mitigate the likelihood of such actions taking place.

4.7 CR-related conditional state funding applying to overseas CR activities of Canadian MMCs

Another way in which the Canadian government addresses ESE issues of Canadian MMCs in Latin America and elsewhere is through CR-conditioned financial support. The Export Development Corporation (EDC) is a federal Crown corporation, with a mandate to support and develop Canada's export trade and Canadian capacity to engage in that trade, and to respond to international business opportunities (Export Development Corporation, n.d.). As such EDC provides financing support for Canadian extractive sector and other projects around the world, through insurance, export guarantees and loans. EDC has developed a corporate social responsibility framework to make CSR an integral part of its corporate strategy. EDC requires that recipients of funding meet environmental and social criteria and has also signed on

43 Dhir 2009.
44 Webb 2011.
45 Webb 2011.

to the Equator Principles, which require signatories to review and condition financing on compliance with the provision of ESE-related criteria.[46]

4.8 Investment activity relating to overseas CR activities of Canadian MMCs

The Canadian investment community represents another potentially important driver for CR activity by Canadian MMCs. In 2008, Canadian assets invested pursuant to socially responsible guidelines were estimated at around $609.2 billion.[47] Large national pension plans such as the Canada Pension Plan Investment Board (CPPIB) have adopted social responsible criteria in their investment strategies. The CPPIB manages $108.9 billion in assets, representing the pensions of 17 million Canadians. It has been reported that CPPIB is a major investor in Goldcorp.[48] Canadian socially responsible-oriented investors have made a number of CR oriented shareholder proposals directed at Canadian MMCs (and others), including pertaining to the activities of Goldcorp concerning its Marlin Mine subsidiary in Guatemala (see Section 5).

Associated with the investment community are CR-oriented rating agencies (institutional intermediaries) that track and evaluate companies in terms of their CR performance. Recent studies suggest that institutional intermediaries influence market assessments of a firm's social responsibility and highlight the importance of the legitimacy-conferring function of such bodies.[49] In particular, research suggests that deletions by CR ranking agencies can result in a significant decline in stock prices of more than 1.5% on average.[50] Scholars have also suggested that investment by firms in CR may protect or insure the firm from a negative CR event, but at the same time, a positive CR event can help redeem past poor CSR performance.[51]

In April 2008, the Canadian CR investment research firm Jantzi Research recommended Goldcorp as ineligible for social responsible investment portfolios,[52] based on concerns about "growing opposition" from local indigenous

46 Auditor General of Canada 2009.
47 Social Investment 2009.
48 Rights Action 2011.
49 Doh et al. 2010.
50 Doh et al. 2010.
51 Doh et al. 2010.
52 Jantzi Research 2008.

communities to Goldcorp's Marlin mine, as well as concerns on other matters not relating specifically to Goldcorp's Marlin mine.[53]

4.9 Canadian mining sector instruments relevant to overseas CR activities of Canadian MMCs

The two major national mining associations operating in Canada have developed CR programs for their members. The Mining Association of Canada (MAC) has developed Towards Sustainable Mining (TSM), an initiative that establishes CR guiding principles and performance elements governing activities of its members.[54] Participation in TSM is a condition of membership in MAC. TSM requires members to subscribe to the guiding principles backed by specific performance indicators against which member companies must report annually. The Prospectors and Developers Association of Canada has established E3 Plus, A Framework for Responsible Exploration, a voluntary program for its members, that includes CR principles and guidance (Prospectors and Developers Association, n.d.). Both MAC and PDAC are members of the International Council for Mining and Metals, in which Goldcorp is a member.

4.10 Canadian NGO and media activity pertaining to overseas CR activities of Canadian MMCs

A number of Canadian NGOs, with environmental, human rights, religious, labor, and other backgrounds, have directed their attention to critical ESE-oriented scrutiny of Canadian mining activity at home and abroad. Among other things, the NGOs have: created regularly updated websites which itemize ESE-related criticisms of Canadian MMC activity; conducted research and written papers on MMC ESE issues; participated in public policy discussions; worked in national and international partnerships and coalitions on issues of common interest;[55] and worked with non-Canadian NGOs and other actors as part of TANs (see Section 5).

53 Jantzi Research 2008.

54 Mining Association of Canada 2010.

55 For example, in 2010, the Canadian Network on Corporate Accountability made a submission to the Extractive Sector CSR Counsellor's Public Consultation Process (Canadian Network on Corporate Accountability 2010). For the purposes of the submission the coalition acted on behalf of: Amnesty International Canada, Friends of the Earth Canada, the Halifax Initiative Coalition, KAIROS: Canadian Ecumenical Justice Initiatives, the Mennonite Central Committee Canada, MiningWatch Canada, Publish What You Pay – Canada, the Steelworkers Humanity Fund, and the United Church of Canada Process (Canadian Network on Corporate Accountability 2010).

The Canadian media has also closely followed the overseas ESE activities of Canadian MMCs. The Latin American ESE activities of Goldcorp have been one of many MMCs that have been a focus of NGO and media critical attention, as discussed in Section 5.

A final point to note in this description and analysis of the "home state" environment pertaining to Canadian MMC activity is how Canadian governmental, private sector and civil society actors are variously drawing on and participating in international instruments as part of their efforts to articulate the CR normative framework applying to MMC activity.

5 Latin American/Guatemalan contextual factors relevant to CR of Canadian MMCs

Mining activity is difficult enough to undertake in a socially responsible way in stable democracies where citizens are comparatively affluent and educated, the social and physical infrastructure is well developed, respect for the rule of law is widespread, there is good governance in terms of political, judicial and regulatory processes, and corruption is minimal. Unfortunately, in many countries of Latin America, these conditions are rarely present. Commentators have variously pointed to a wide number of problems common in Latin American countries that indirectly set the stage for community-extractive sector conflict on ESE issues, including deep-rooted economic inequality and marginalization of indigenous groups and subsistence farmers, political instability, lack of trust in government, inadequate laws and implementation, poor conflict resolution mechanisms and a related tendency to resort to violence and force in the face of perceived resource-related injustices, weaknesses around managing extractive industries' revenues, and significant corruption issues.[56]

Turning specifically to the conditions in Guatemala, in terms of socio-economic indicators, the country's rating of 0.574 on the UNDP Human Development Index (HDI)[57] for 2011 (measuring life expectancy, adult literacy and school

---

56 See, Szablowski 2002; Odell and Silva 2006; Imai et al. 2007; Munoz et al. 2007; Szablowski 2007; Sagebien et al. 2008; Vasquez 2010; Odell 2011.

57 The Human Development Index provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having a decent standard of living (measured by purchasing power parity). The index is not in any sense a comprehensive measure of human development. It does not, for example, include important indicators such as gender or income inequality and more difficult to measure indicators like respect for human rights and political freedoms. What it does provide is a broadened prism for viewing human progress and the complex relationship between income and well-being. Per: UNDP, nd.

enrolment, and purchasing power parity) ranks poorly among South American countries.[58] In comparison, Chile (the top performing South American country) has an HDI of 0.805 (in the "very high" human development category), Peru has an HDI of 0.775 (in the "high" human development category), and El Salvador has an HDI of 0.674 (UNDP 2011). Both El Salvador and Guatemala are in the "medium" human development category.[59]

World Bank statistics indicate that 56% of Guatemalans live in poverty and 16% of these people live in extreme poverty.[60] Poverty is concentrated in rural and indigenous areas of the country, and the area where the Marlin mine is located is one of the most economically desperate regions.[61] Poverty and exclusion are said to have plagued places like the Guatemalan highlands for centuries.[62]

Looking specifically at the governance[63] situation in Guatemala, according to the World Bank's Worldwide Governance Indicators Project, for the years 2000–2010, Guatemala was a poor performer.[64] When compared with Latin American counterparts such as Chile, Peru, and El Salvador, Guatemala scored last in the six World Bank governance indicator categories – voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption – except in the political stability category, in which Guatemala scored second last next to Peru.[65]

Fulmer et al. (2008) conclude that the Guatemalan institutional framework, policies and rules that are currently in place are insulated from public deliberation with little opportunity for real participation in decision-making.[66] Thus, for example, they note that the Guatemalan mining law, drafted in 1997, continues a tradition of weak and unenforceable protections for the environment and public health, without mechanisms for community participation in decision-making.[67]

58 UNDP 2011.
59 UNDP 2011.
60 Fulmer et al. 2008: p. 95.
61 Fulmer et al. 2008: pp. 95–96.
62 Fulmer et al. 2008: p. 96.
63 According to the World Bank Worldwide Governance Indicators (WGI) project, governance is defined as the set of traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them. Per World Bank 2010.
64 World Bank 2010.
65 World Bank 2010.
66 Fulmer et al. 2008: p. 98.
67 Fulmer et al. 2008: p. 98.

They reach similar conclusions concerning the Guatemalan indigenous legal protections.[68]

In this sort of situation, affected Guatemalan communities may resort (and have resorted) to "extra-legal" techniques to get their points across, such as protests, blockades, and violence. In a recent law journal article,[69] the situation with respect to Guatemalan indigenous groups near the Marlin mine is described as follows:

> *The Indigenous people of Sipacapa and San Miguel Ixtahuacan ... have precious little. They are showered with information but do not have a real say in the development of the mine. They cannot rely on the military or the government. They have little in terms of financial resources, political power, access to justice or even personal protection. One of the few avenues open to them is to protest publicly and blockade roads.*[70]

The same account also describes a weak Guatemalan court system "in part because the Constitutional Court itself is beholden to the members of the legislature who appoint them, and the party of the former dictator Rios Montt was successful in manipulating the court appointments. In addition, the Court is not immune to threats from the still powerful military."[71] Imai et al. (2007) also refer to incidents of judicial intimidation, with examples of judges being assassinated.[72] In addition, the government is described as lacking the capacity to monitor mines and "vulnerable to economic forces" with "an enormous incentive to address poverty through natural resource exploitation."[73]

6 Learning from Goldcorp's CR activities in Guatemala

In this section, as an illustration of how Canadian MMCs navigate the home, host and global environment to develop their multi-level CR approaches, a descriptive analysis is provided of the development of Goldcorp's global Human Rights Policy – a key part of Goldcorp's overall CR approach – as revealed through

68 Fulmer et al. 2008: pp. 98–99.
69 Imai et al. 2007.
70 Imai et al. 2007: p. 125.
71 Imai et al. 2007: p. 127.
72 Imai et al. 2007: p. 127.
73 Imai et al. 2007: p. 127. All this having been said, Guatemalan court decisions have supported several community challenges to mining related laws, as discussed in Section 5.

the interactions between the Goldcorp head office, its Guatemalan subsidiary Montana Exploradora de Guatemala, local host country actors, Canadian home country actors, as well as other actors operating in the broader global normative context. A timeline is included as Appendix B of this article, to provide the reader with a chronological overview of the range of ESE issues and CR activities and interactions associated with the Marlin Mine.

Incorporated in 1994, Canadian MMC Goldcorp is the world's third largest gold producer, behind Canada's Barrick Gold and US-based Newmont Corporation.[74] In 2009, Goldcorp had revenues of US$2.7 billion, and a workforce of 11,500 employees and contractors.[75] In 2011, Goldcorp had ten operating gold mines in the Americas (five in Canada and the United States, the rest in Central and South America and the Caribbean), and another six projects in development.[76] It was projected that by 2011, more than half of Goldcorp's production would come from jurisdictions other than Canada and the United States.[77]

The Marlin Mine is Goldcorp's only operating mine in Guatemala at this time. The Marlin Mine is located in the San Marcos region of Guatemala, a region largely populated by indigenous Mayans, and described as one of the most economically challenged parts of Guatemala, with high levels of childhood mortality, illiteracy and other social problems.[78] Some commentators have suggested that large-scale mining operations run fundamentally counter to the indigenous Mayan "cosmovision," in which human societies depend on and are inseparable from their relationships with the earth and the broader environment.[79]

The Marlin mine activities take place in an area that overlaps the municipalities of Sipicapa and San Miguel, with most of the ore deposits and the mine project itself in San Miguel, and the processing facilities in Sipicapa. From the period 2002 to 2006, the Marlin mine project was developed and brought into operation by Montana Exploradora as a subsidiary of the Canadian mining company Glamis Gold. Montana Exploradora became a wholly owned subsidiary of Goldcorp when Goldcorp acquired Glamis Gold in 2006. There has been a

74 Sosa 2011.
75 Sosa 2011.
76 Deisley 2011.
77 Deisley 2011.
78 The following account of the situation at the Marlin Mine in Guatemala is a composite based on information from Compliance Adviser/Ombudsman (CAO) 2005; Imai et al. 2007; Coumans 2008; Fulmer et al. 2008; Hoffman 2008; Jantzi Research 2008; Rights Action 2008; Dhir 2010; Goldcorp 2010b,d; Inter-American Commission on Human Rights 2010; International Labor Conference 2010; Maheandiran et al. 2010; On Common Ground 2010; Deisley 2011; MiningWatch Canada 2011; National Contact Point 2011; Sosa 2011.
79 Fulmer et al. 2008.

considerable history of community concerns and issues pertaining to the Marlin mine, summarized by one commentator who stated that the Marlin mine has:

> *.... long faced strong opposition by local indigenous people who claim that they were not properly consulted before the mine was developed and were intimidated into selling their land. Local residents are also concerned about water pollution in the area and blame the mine for a high incidence of health problems. Residents of one of the two affected municipalities voted overwhelmingly against the mine in a referendum held in 2005. There have been protests, one which resulted in a fatality, as well as vandalism of mining infrastructure.*[80]

A key focal point of Goldcorp's CR activities in Guatemala has been the affected local communities of San Miguel and Sipicapa, and the issues of these communities. These same local affected communities and their issues have also been a focal point of attention from a transnational network of advocacy groups[81] that has been attempting to influence the nature of mining activity in the area, with the network consisting of a loose, fluctuating, and not always harmonious coalition of Guatemalan, Canadian, and international actors, including the local Catholic Church of San Marcos, a Guatemalan environmental group (MadreSelva), a Guatemalan peasants' rights group (CONIC), Canadian and Swedish social responsibility oriented institutional investors in Goldcorp (e.g., the Public Service Alliance of Canada Staff Pension Fund, the Canadian-based Ethical Funds Company, the First Swedish National Pension Fund and the Fourth Swedish National Pension Fund), Canadian advocacy organizations critical of Canadian mining activity (e.g., Mining Watch, Halifax initiative, Rights Action, and Breaking the Silence), international environmental NGOs (e.g., Friends of the Earth), international human rights organizations (e.g., Amnesty International) and international development oriented organizations (e.g., Oxfam International). In addition, events associated with Marlin Mine have been closely and regularly reported on by the Canadian and international media.[82]

Events that transpired when the Marlin Mine was developed and operated by Montana Exploradora under Glamis Gold ownership have had considerable bearing on Goldcorp's CR activities at Marlin Mine, and so they are briefly described here. In 2004, the Marlin mine project was the recipient of a US$45 million loan from the World Bank's International Finance Corporation (IFC). IFC funding is conditional on the recipients meeting IFC performance standards.

80 Sosa 2011: references omitted.
81 Keck and Sikkink 1998.
82 For an assortment of media articles and programs critical of Goldcorp's Guatemalan activities, go to: https://www.miningwatch.ca/categories/main-categories/company/goldcorp.

As per IFC requirements, Glamis Gold conducted an Environmental and Social Impact Assessment of the Marlin mine project.

It has been suggested that the Marlin mine project was initiated with considerable expectation of its ability to stimulate economic development:

> *For the Guatemalan government, for Glamis Gold, and apparently for the IFC, the Marlin project promised new hope for rural Guatemala: not only would the project create jobs in one of the poorest and most excluded areas, but the company had put together an unusually generous package of incentives, including payment of some local schoolteachers' salaries, construction of local roads, and the creation of a corporate-funded foundation to finance community development initiatives.*[83]

In 2005, following a complaint by residents from the municipality of Sipicapa (assisted by Guatemalan environmental NGO MadreSelva) to the World Bank's Compliance Adviser/Ombudsman (CAO), who alleged that the Marlin mine was "developed without adequate consultation and in violation of the rights of indigenous peoples" (characterized by the complainants as actions contrary to ILO Convention 169), the CAO issued a report that highlighted a number of problems.[84] While noting that the IFC had determined that the disclosure and consultation practices of Glamis Gold met IFC requirements, and that Glamis Gold had interacted extensively with local communities, the CAO also found that the information supplied by Glamis Gold in the consultation phase was highly technical and insufficient to allow for an informed view by community members concerning the likely adverse impacts of the project. The CAO observed that "an aggressive and at times factually unfounded campaign focused against the project" had raised fears in the community.[85] The CAO also concluded that with respect to environmental risks, the people of Sipicapa were not likely to be impacted significantly by the project, and recommended that going forward, enhanced participation by Glamis Gold with local people should be undertaken and that a multi-stakeholder dialogue should be initiated to address community concerns.[86]

Also in 2005, a referendum on mining (conducted by a show of hands) was held in communities in the municipality of Sipicapa.[87] Of those who participated, the majority voted overwhelmingly to reject mining in the area.[88] The Constitutional Court of Guatemala later upheld the legality of holding such a referendum

83 Fulmer et al. 2008: p. 93.
84 CAO 2005.
85 CAO 2005: p. iii.
86 CAO 2005: pp. iii–iv.
87 McGee 2009.
88 McGee 2009.

as a mechanism for the local populace to express its views, but the Court also stated that it was non-binding.[89] In addition, the Court urged the Guatemalan government to make effective its obligations as a signatory to ILO Convention 169, requiring consultations with indigenous peoples.[90] Subsequently, the Constitutional Court also declared certain sections of the Guatemalan Mining Act unconstitutional, for breaching environmental standards.[91]

This brief description of the Glamis Gold era of Marlin Mine ownership reveals a history of ESE-related concern among some affected community members. Also to be noted is that from this early period, the ESE activities associated with the Marlin Mine involved significant CR normative-focused interactions among Glamis Gold and Montana Exploradora, affected local communities and NGOs, various Guatemalan government entities at the municipal and national levels, the domestic court system, a local referendum, debates on the meaning and implementation of an international treaty (ILO Convention 169), the involvement of a global inter-governmental financial agency (IFC) requiring compliance with global ESE norms, and the intervention of an inter-governmental dispute resolution entity (the World Bank CAO).

In short, when Goldcorp acquired Glamis Gold and the Marlin Mine operation in 2006, they also inherited a legacy of ESE-oriented disputes and controversy concerning the mine, and attached to that the engagement of diverse members of a transnational advocacy network. This controversy attracted attention in Canada, in the form of critical scrutiny by Canadian academics,[92] a Canadian-based social responsibility corporate rating agency,[93] NGOs,[94] the media,[95] and Canadian members of the social responsibility investment community.[96] This ultimately formed the backdrop for a 2008 shareholder proposal in Canada launched by a consortium of social responsibility-oriented Goldcorp investors, after members of

89 Fulmer et al. (2008: p. 100), state that "[w]hile the Municipal Code attempts to respect "the particular standards of the customs and traditions" of indigenous groups (which presumably include consensus-based decision-making, including voting by show of hands), it establishes a higher standard of participation for such votes to be considered binding (50% of registered voters instead of 20%)." In the case of the Sipicapa referendum, participation was slightly <50%.

90 Imai et al. 2007: p. 126.

91 Maheandiran et al. 2010: p. 3.

92 E.g., Imai et al. 2007.

93 Jantzi Research 2008.

94 E.g., Coumans 2008.

95 E.g., Hoffman 2008.

96 Sosa 2011.

the consortium conducted a visit to the Marlin mine.[97] The shareholder proposal was initiated pursuant to provisions in the Canada Business Corporations Act, and called for Goldcorp to conduct an independent Human Rights Impact Assessment at its Marlin Mine. The consortium consisted of the Public Service Alliance of Canada Staff Pension Fund, the Canadian-based Ethical Funds Company, the First Swedish National Pension Fund and the Fourth Swedish National Pension Fund.

The shareholder proposal was withdrawn when Goldcorp agreed to conduct a human rights assessment (HRA) in cooperation with members of the consortium. A grouping of Canadian and other NGOs, working in conjunction with members of the affected communities, was highly critical of the shareholder proposal, and the human rights assessment which followed, describing it as "fundamentally and irrevocably flawed and unacceptable as the communities directly affected by the Marlin Mine and the HRIA were never consulted as to the content of the shareholder proposal or the subsequent MOU between the shareholder group and Goldcorp."[98]

In 2009, a complaint was brought concerning the Marlin Mine to the Canadian National Contact Point (NCP) for the OECD Multinational Enterprise Guidelines by a coalition of Guatemalan NGOs working with an international NGO.[99] The NGOs wanted the NCP to conduct a field visit, and they were seeking support for their position that the mine should be closed (National Contact Point 2011). The NCP declined to conduct the field visit, but offered to facilitate a dialogue with Goldcorp (and Goldcorp was willing to engage in the NCP process). Ultimately, the NGOs declined to participate in the NCP-facilitated dialogue.[100]

Against this backdrop of critical scrutiny, Goldcorp went ahead with the commissioning of the HRA in 2009, undertaken by an independent consultant, selected by and under the supervision of a Steering Committee with one representative from the consortium of investors, one Guatemalan representative, and the Goldcorp Executive Vice President, Corporate Affairs and General Council.[101] In 2010, the report of the consultant conducting the HRA was publicly released on the internet[102] and was presented to the local affected communities, the Guatemalan government, and others.[103] The HRA report made 67 recommendations, addressing Goldcorp practices

97 Imai et al. 2007. Another shareholder proposal was also initiated in 2008, initiated by an individual shareholder, calling for Goldcorp to halt any plans to expand the mine without the free, prior and informed consent of the affected communities (Sosa 2011). Goldcorp refused to circulate this resolution, arguing that it did not relate to the business of the corporation (Sosa 2011).

98 Coumans 2008.

99 National Contact Point 2011.

100 National Contact Point 2011.

101 Deisley 2011 and Sosa 2011.

102 On Common Ground 2010.

103 Deisley 2010.

concerning consultation, environmental protection, labor issues, land acquisition issues, economic and social investment, security, and access to remedies.[104] Goldcorp responded to the report in 2010, on a recommendation-by-recommendation basis, with their response also made publicly available on the internet.[105] As of March, 2011, Goldcorp had indicated that 15 of the recommendations had been implemented, another 48 were underway, and the remaining four were "under consideration."[106]

The shareholder proposal, the initiation of the human rights assessment, and the subsequent HRA report and recommendations, were described by Goldcorp as the catalyst events for some significant CR-related developments at a corporate level for Goldcorp, and at the Marlin mine, including:

- the adoption of a company-wide corporate social responsibility policy by Goldcorp in 2010;[107]
- the adoption of a company-wide human rights policy by Goldcorp in 2010, aligned with the overarching corporate social responsibility policy, and based on the Marlin mine experience;[108]
- the adoption of a company-wide health and safety management system based on the OHSAS 18001 standard, drawing on the experience associated with putting such a system in place at the Marlin mine operation;[109] and
- the development of a corporate framework for employee and external (community) grievance mechanisms.[110]

Pursuant to its Corporate Social Responsibility Policy, Goldcorp committed itself to engaging with all stakeholders, consulting with local communities, establishing "best practice" grievance mechanisms, developing socio-economic opportunities that lead to sustainable prosperity, and integrating CSR into its business practices and management approach.[111]

104 On Common Ground 2010.
105 Goldcorp 2010b.
106 Deisley 2011.
107 Deisley 2010 and Goldcorp 2010a.
108 Deisley 2010 and Goldcorp 2010b.
109 Goldcorp 2010c.
110 Goldcorp 2010c.
111 Goldcorp, nd and Goldcorp 2010b. This approach appears to represent an effort by Goldcorp to secure a social licence to operate its Marlin mine (Gunningham et al. 2003), derived from expectations of economic, legal and social stakeholders, and as such the licence to operate concept is consistent with institutional perspectives (DiMaggio and Powell 1983; Scott 1995; Dashwood 2007) and theorists examining the importance of stakeholder relations (e.g., Freeman 1984; Donaldson and Preston 1995; Luceah and Doh 2011) in that it suggests that firms are dependent on various stakeholders to obtain access to resources, and that the activities of these stakeholders play roles in defining the nature of the licence.

The Goldcorp CSR policy is also explicitly aligned with and supported by its Human Rights Policy, as well as policies pertaining to environment and sustainable development, occupational health and safety and its code of conduct.[112] The significant role played by international normative instruments in Goldcorp's CR approach is particularly evident in its CSR policy and Human Rights Policy. Goldcorp's Vice President in charge of corporate responsibility has noted that Goldcorp's CSR policy "…. is rooted in our company values, which are guided by international standards and best practices, and are driven by our aspiration for excellence in the overall performance of our business."[113]

Among other things, the Goldcorp Human Rights Policy explicitly commits the company to upholding the human rights set forth in the Universal Declaration of Human Rights, to respecting worker rights as set out in a wide number of ILO conventions, to respecting the rights of indigenous peoples articulated in ILO Convention 169, to working in accordance with the Voluntary Principles on Security and Human Rights, to following IFC performance standards re: resettlements, and to reporting performance with respect to meeting human rights pursuant to the Global Reporting Initiative.[114]

The invoking by Goldcorp of these various international instruments in the Human Rights Policy can be interpreted as a reflection of and response to external pressures from Canadian and Swedish shareholders and Canadian and international NGOs. In addition, the referencing of the international instruments seems to be an attempt by Goldcorp to respond to the local circumstances in and around the mine. In particular, the commitment by Goldcorp to respecting the rights of indigenous peoples articulated in ILO Convention 169 appears to represent an effort by Goldcorp at its Marlin mine to indicate its willingness to adapt the convention to meet local needs, even though ILO Convention 169 was considered by Guatemalan courts to be inadequately implemented by the government of Guatemala.

Goldcorp's extensive referencing of these instruments might also be characterized as a measure undertaken to repair or enhance legitimacy,[115] and appears to align well with the observation of Brereton (2002) that corporations employ third-party initiatives because of the anticipated reputational benefit derived from them. Goldcorp's activities are also consistent with the work of Keck and Sikkink (1998) and Dashwood (2007) who have noted the influence of evolving

112 Goldcorp 2010b.
113 Deisley 2011.
114 Goldcorp 2010b. Appendix A contains a listing of more than 25 international instruments referred to by Goldcorp in its CR Policy, Human Rights Policy, and in other Goldcorp documents.
115 Suchman 1995.

global norms on firm behavior, and the role of transnational advocacy networks in pressuring firms to meet global norms.

Goldcorp has explicitly acknowledged how the Marlin mine human rights experience was intended to inform the corporate-wide approach to human rights. For example, as part of its 2010 response to the HRA assessment, Goldcorp said "[w] hile the implementation of industry best practices at the Marlin Mine is our immediate objective, Goldcorp commits to integrating respect for human rights explicitly in Goldcorp's business practices with the goal of creating a comprehensive framework that addresses our activities everywhere we operate."[116] At the same, Goldcorp explicitly credits the human rights assessment process as stimulating significant changes in its approach to community and government engagement in Guatemala. In this regard, the Goldcorp Executive Vice President has stated the following:

> *From my perspective, the most important success of the HRA process was the change in the nature of the engagement among the company, local communities, and the government. In December 2010, Vice President Espada convened a Mesa de Dialogo – a roundtable – comprised of representatives of the municipalities of San Miguel Ixtahuacan and Sipacapa, various governmental agencies, and the company. The Mesa de Dialago has a dual agenda: to address short-term issues such as the petition pending before the IACHR [Inter-American Commission on Human Rights] as well as longer-term issues related to the development of the Municipalities of San Miguel Ixtahuacan and Sipacapa.*[117]

Taken together, it appears that the shareholder process initiated in Canada urging that Goldcorp undertake an human rights assessment at its Guatemalan mine (and the assessment which followed, the recommendations flowing from it that culminated in Goldcorp's response to the recommendations and the subsequent introduction of new corporate wide CSR policy and human rights policy and subsequent Goldcorp-government-community initiatives), triggered significant developments in Goldcorp's overall corporate CR approach, and in Goldcorp's CR approach at its Marlin mine – the product of a complex inter-play of Canadian, Guatemalan, and global factors.[118]

116 Goldcorp 2010d.

117 Deisley 2011.

118 While the focus of attention in this section has been on the Goldcorp shareholder proposal for an HRA and the actions and events that transpired thereafter, it is important to note that ESE issues at Goldcorp's Marlin mine continue to be a focus of critical attention, and it is equally important to acknowledge that more changes are likely to transpire. Examples of recent ESE-related events at Marlin Mine largely taking place outside of the HRIA process include:

– a 2010 ILO Committee of Experts request to the Government of Guatemala that it neither grant nor renew any licence for exploration and exploitation of natural resources while participation and consultation as per ILO 169 "are not being carried out" (International Labor Conference 2010);

The evolving corporate CR approach of Goldcorp, and the role of events at Goldcorp's Marlin Mine subsidiary in the development of that approach, have been described here to shed light on how MMC CR approaches can be shaped by home and host country and global factors. These factors will each be now examined in more detail.

The foregoing analysis supports the proposition that home country factors can play an extremely important role in influencing the terms of corporate CR approaches of MMCs as well as in shaping the specific activities taking place in subsidiary operations in other jurisdictions. The examination in this article of state-based factors in Canada pertaining to the overseas ESE-related activities of Canadian MMCs is consistent with the view that overseas CR behavior of Canadian MMCs is a high priority and concern in the home country Canada and that a variety of state-based instruments and processes are being used to pressure Canadian MMCs to meet standards set in global normative instruments, such as the shareholder proposal mechanism to ensure that human rights are not violated, the National Contact Point process to review whether the terms of the OECD Multinational Enterprise Guidelines are being followed, the ESE-related conditions on EDC funding, and legal actions in Canadian courts regarding alleged violations taking place in overseas jurisdictions. Non-state Canadian actors are also playing important roles (often working in cooperation with affected communities and members of a transnational advocacy network addressing CR mining issues), including investors using the shareholder proposal mechanism, NGOs initiating actions under the NCP process and publicizing incidents of alleged problematic overseas MMC behavior, and Canadian social responsibility rating agencies recommending de-listing of Canadian MMCs that are considered to be not meeting acceptable standards of behavior.

The conclusion reached in this article is that the "home state" shareholder pressure on Goldcorp played the pivotal catalyst role in driving Goldcorp to

– a 2010 recommendation from the Inter-American Commission on Human Rights (IACHR) that the Government of Guatemala carry out "precautionary measures" (interim) re: alleged water contamination and wells drying up, including suspending the Marlin mine until such time as the IACHR adopts a decision on the merits (Inter-American Commission on Human Rights 2010);
– in response to the 2010 IACHR recommendations, the initiation by the Guatemalan government of an administrative process to further investigate the claims, coupled with communications from the Guatemalan government to residents indicating that there is no evidence of water contamination (Mining Weekly 2010);

and an unsuccessful 2011 shareholder proposal calling for suspension of the Marlin Mine (Sosa 2011).

conduct a human rights impact assessment that in turn led to the development of a human rights policy and other actions of direct relevance to the local affected communities in Guatemala, where Guatemalan state-based approaches were being found to be insufficient to galvanize action. The significance of the global normative context for responsible mining activity is reflected in the frequent referencing of and use of international instruments by home country and host country actors, as well as by Goldcorp itself.

The analysis undertaken here suggests that Canadian mining companies such as Goldcorp are facing extremely challenging multi-level host, home, global and non-state dynamics, where what they do at one level can have significant impacts on another level.[119] In keeping with rational choice institutionalism,[120] Canadian MMCs can be seen as strategic players seeking to deflect corporate responsibility demands from locally affected actors in host countries by pointing to the activities they have engaged in to respond to home country pressures, such as the pressure associated with the Goldcorp CR-oriented shareholder proposal leading to the human rights assessment.

In the Goldcorp situation described here, the actions of shareholders and transnational advocacy networks represent examples of non-state capacity mobilized to pressure CR action.[121] One scholar hypothesized that:

> *[c]orporations will be more likely to act in socially responsible ways if there are private, independent organizations, including NGOs, social movement organizations, institutional investors, and the press, in their environment who monitor their behavior and, when necessary, mobilize to change it.*[122]

This hypothesis seems to align well with the situation facing Goldcorp with respect to its Guatemalan mine subsidiary, with the TAN involving Canadian, Guatemalan and global actors playing an important role. Campbell (2006) also observes that the effectiveness of state regulation and industrial self-regulation may be affected by stakeholder monitoring:

> *[r]ational choice institutionalists have long held that the effectiveness of institutional constraints is only as strong as are the monitoring and enforcement procedures associated with them.*[123]

119 Prakash 2002; Griffin and Koerber 2011.
120 Campbell 2006.
121 Keck and Sikkink 1998.
122 Campbell 2006: p. 932.
123 Campbell 2006: p. 931.

Drawing on scholars such as Keck and Sikkink (1998), Campbell (2006: p. 931) emphasizes the significant monitoring role that TANs can play where corporations engage in multinational operations. In the Goldcorp situation, it would appear that in the absence of strong Guatemalan government monitoring and enforcement capacity, the home-host-global TAN described here performed key oversight functions, drawing public attention to the perceived problematic behavior of Goldcorp and pressuring Goldcorp to respond. That MMCs such as Goldcorp are acting strategically in responding to such pressures, in keeping with rational choice institutional theory, does not diminish from the important role played by the global normative environment in influencing their behavior,[124] as evidenced by the numerous references to global instruments by home and host country actors as well as by Goldcorp itself.

The boomerang effect is described by Keck and Sikkink (1998) as a situation where non-state actors, faced with repression and blockage at home, seek out transnational allies elsewhere (i.e., members of a transnational advocacy network), and in some cases are able to bring pressure to bear from above on the repressive government to carry out domestic political change. Risse and Sikkink (1999) later expanded the boomerang effect into what they called the spiral model, a more dynamic five phase conceptualization of the effects of domestic-transnational linkages on domestic political change. A key feature of the spiral model is its recognition of a more long-term process of attempted change, that involves a series of political moves, not just a single move, as with the boomerang effect.

The Goldcorp situation in Guatemala would appear to resemble a form of corporate spiral model, in the sense that it has involved several transnational "moves", with pressure being directed at first instance at the company level, rather than at the government level: for example, the appeal to the World Bank's Compliance Adviser/Ombudsman (CAO), the shareholder proposal, the complaint to the OECD Multinational Enterprise National Contact Point in Canada, and the social responsibility investment de-listing decision, are four instances of TAN-related pressure directed at Goldcorp's activities in Guatemala. We have noted earlier that the shareholder proposal was characterized by a coalition of non-state actors as not being undertaken on behalf of the local affected community and not being undertaken with local consent. Yet it is the shareholder proposal which was acted upon by Goldcorp, and Goldcorp specifically characterizes the company's various actions (such as development of its HR policy and its subsequent engagement with government and local communities) as a response

124 Dashwood 2011.

to the original shareholder proposal and the HRA which followed. Whether or not Goldcorp will be successful at fending off host country criticisms of its actions by pointing to its response to a home country shareholder proposal remains to be seen.

During the same period as the international and Canadian-based activities were undertaken, we have also seen that Guatemalan groups implemented local referenda, and took actions in the Guatemalan courts. These can be characterized as actions undertaken by Guatemalan groups to engage with Guatemalan institutions, not at the international level, and not in Canada. By undertaking multiple moves at multiple levels, a complex inter-active series of actions is put in play, and perhaps when taken together there may be an expectation by some parties that an accumulated pressure will produce action at the corporate level and at the Guatemalan government level.

Bartlett and Ghosal (1989) identify three approaches (global, international, multi-domestic) for multinationals to manage the twin pressures of globalization and localization with product markets. Analogous to the market environment, analysis here suggests that in non-market environments[125] such as the socio-political contexts associated with corporate responsibility, MMCs face somewhat similar global-local tensions. In keeping with observations of Lucea and Doh (2011), Goldcorp made an assessment of the international non-market environment, including the fact that CR issues such as the human rights impacts of their operations transcended the circumstances of its individual subsidiaries to apply more globally, and the fact that the CR issues it faced had attracted the attention of a transnational advocacy network with home, host and global players, and on that basis, it developed its global CR approach. The experience of Goldcorp also provides support for the proposition that in the development of their global CR approaches, MMCs may grant considerable autonomy to subsidiaries to innovate and address local circumstances.

7 Conclusions

The primary research question animating this article revolves around understanding how MMCs are responding to the twin pressures of globalization and localization to develop CR approaches that apply at a global level and to their

125 Baron 1995.

subsidiaries in various different jurisdictions, with particular attention being paid to the role of home, host and international factors in shaping the CR approaches of MMCs. A synthesis of institutionalist perspectives from organizational theory and constructivist approaches from international relations theory was adopted in this article to assist in understanding the home, host and global factors affecting an MMC's multi-level CR approach.

The focus of attention has been on the experience of Canadian MMCs in Latin America, using the particular CR response of one Canadian MMC, Goldcorp, at its subsidiary Guatemalan mining operation, as an illustration. In the Goldcorp situation, analysis suggests that against a backdrop of home, host, global and TAN activities, working within a framework of international normative instruments, the shareholder proposal initiated in the home country Canada played a pivotal role in galvanizing significant changes in Goldcorp's Marlin mine human rights policy and corporate responsibility approach, which then became the basis for Goldcorp corporate level human rights policy and corporate responsibility approaches, and other activities.

Whether home country shareholder resolutions would play such a pivotal role in a significant number of other MMC-subsidiary situations, or whether the conditions surrounding the Goldcorp Guatemalan situation are unique, is a question deserving of further research. The suggestion made here, drawing on the analysis of scholars who have examined the CR approaches of MMCs operating in other parts of the world,[126] is that a similar home-host-global dynamic may be at work more generally with respect to multi-level CR approaches of developed country-headquartered MMCs vis-a-vis their subsidiary operations in developing countries. The question of attributing causality when such a complex and dynamic interplay of home-host-global factors is in play represents a considerable research challenge that could be pursued in further scholarly research. The home-host-global dynamic may operate differently with respect to CR approaches of MMCs headquartered in developing countries, since the particular combination of political, regulatory and non-state instruments and actors applying in such a situation may be quite different. This would be another topic for further research, as would be the generalizability of the conclusions reached here to CR approaches of non-mining multinational corporations and their subsidiaries.

126 E.g., Kapelus 2002; Imbun 2006; Jenkins and Yakovleva 2006; Campbell 2011; Kemp et al. 2011.

Appendix A: International instruments referred to By Goldcorp

In Goldcorp's CSR Policy, Human Rights Policy, and in other Goldcorp documentation noted in this article, Goldcorp has indicated its support for or commitment to respect the following international instruments (the instrument classification acronyms IGNB, IGBWRI, INGNB, and IHNB are explained at the bottom of the Appendix):

- Universal Declaration of Human Rights (IGNB)
- International Convention on Economic, Social and Cultural Rights (IGBWRI)
- International Covenant on Civil and Political Rights (IGNB)
- Report of the Special Representative of the Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises (John Ruggie) (IGNB)
- United Nations Global Compact (IGNB)
- Organization for Economic Co-operation and Development MNE Guidelines (IGNB)
- IFC Performance Standards with respect to resettlement (IGNB)
- ILO Convention 29 on Forced or Compulsory Labor (IGBWRI)
- ILO Convention 87 on Freedom of Association and Protection of the Right to Organize (IGBWRI)
- ILO Convention 98 on Right to Organize and Collective Bargaining (IGBWRI)
- ILO Convention 100 on Equal Remuneration (IGBWRI)
- ILO Convention 105 on Abolition of Forced Labor (IGBWRI)
- ILO Convention 111 on Discrimination (Employment and Occupation) (IGBWRI)
- ILO Convention 138 on Minimum Age (IGBWRI)
- ILO Convention 169 on Indigenous and Tribal Peoples (IGBWRI)
- ILO Convention 182 on Worst Forms of Child Labor (IGBWRI)
- Voluntary Principles on Security and Human Rights (IGNB)
- United Nations Basic Principles on the Use of Force and Firearms by Law Enforcement Officials (IGNB)
- United Nations Code of Conduct for Law Enforcement Officials (IGNB)
- Global Reporting Initiative (INGNB)
- ISO 14001 environmental management system standard (INGNB)
- OHSAS 18001 occupational health and safety management system standard (INGNB)
- ICMM Sustainable Development Framework (INGNB)
- Extractive Industries Transparency Initiative (IHNB)
- International Cyanide Management Code (INGNB)
- Carbon Disclosure Project (INGNB)

IGNB=Inter-governmental instrument, non-binding at first instance; IGBWRI=Inter-governmental instrument, binding (at the domestic level) when ratified and implemented; INGNB=International instrument, non-governmental and non-binding unless agreed upon by the party; IHNB=International instrument, hybrid state and non-state, non-binding unless agreed upon by the party.

Appendix B: Timeline of key ESE-relevant events – Marlin Mine, Guatemala

1998 – Montana deposit (later to become Marlin Mine) discovered by Montana Exploradora
2000 – Montana Exploradora acquired by Francisco Gold Corporation
2002 – Francisco Gold Corporation merged into Glamis Gold
2004 – Glamis Gold receives IFC funding for Marlin mine project (IFC funding conditional on meeting IFC ESE-oriented standards)
2005 – Montana Exploradora mine brought into production by Glamis Gold
2005 – Community referendum on mining held by show of hands in Sipicapa municipality (no community referendum held in San Miguel). Of those participating (just under 45%) in the Sipicapa referendum, the vast majority were opposed to mining
2005 – Following a complaint brought by residents of Sipicapa community, the IFC CAO Issues a report that points to both adequacies and problematic aspects of the ESE activities of Glamis Gold, the Guatemalan Government, the IFC, and others
2006 – Goldcorp acquires Glamis Gold (and in turn, Montana Exploradora becomes a subsidiary of Goldcorp)
2007 – Guatemalan Constitutional Court holds that Sipicapa referendum was legal but not binding
2007 – Goldcorp CSR factsheets start, Goldcorp Sustainability reports start
2007 – Goldcorp appoints Vice-President, Sustainable Development of the Corporation
2008 – Jantzi Research recommends de-investment in Goldcorp over ESE-related concerns re: Marlin and elsewhere
2008 – Goldcorp appoints Vice-President, Safety and Health
2008 – Shareholder proposal by consortium of Canadian and Swedish social responsibility-oriented investors urging Human Rights Impact Assessment (HRIA) at Marlin, proposal criticized by assorted groups on basis of

it not involving adequate and meaningful local consent and involvement. Proposal withdrawn after Goldcorp agrees to have HRIA conducted, by an agreed third party consultant, under supervision of Steering Committee with consortium member representative, Guatemalan representative and Goldcorp representative. Goldcorp agrees in MOU with consortium of investors to improve human Rights performance at Marlin and that this experience would inform Goldcorp global operations

2009 – Marlin Mine certified to Cyanide Code

2009 – Goldcorp joins United Nations Global Compact

2009 – Goldcorp joins International Council of Mining and Metals (ICMM)

2009 – Goldcorp appoints Vice-President, Corporate Social Responsibility

2009 – NGOs bring complaint to Canadian OECD MNE Guidelines National Contact Point re: Marlin Mine

2010 – Human Rights Impact Assessment (HRIA) report completed by third party consultant, made publicly available on internet. The HRIA report contains 67 recommendations. Goldcorp issues its response, agreeing to most of the recommendations, with remaining recommendations "under consideration."

2010 – NGOs decline to participate in an NCP facilitated dialogue with Goldcorp (they were seeking a field visit which the NCP was not prepared to undertake, and they were seeking support for their position that the mine should be closed) even though Goldcorp was willing to engage in the NCP process

2010 – ILO Committee calls for suspension of mine

2010 – Inter-American Commission on Human Rights (IACHR) recommends that Government of Guatemala carry out "precautionary measures" (interim) re: alleged water contamination and wells drying up, including suspending Marlin mine until such time as IACHR adopts a decision on merits of petition

2010 – in response to IACHR recommendations, Guatemalan government initiates administrative process to further investigate the claims, while indicating to residents that there is no evidence of water contamination

2010 – Goldcorp CSR Policy introduced, Marlin Human Rights Policy adopted, Goldcorp Human Rights Policy adopted on basis of Marlin experience, Goldcorp agrees to OHSAS 18000 framework for all Goldcorp operations on basis of Marlin Mine experience, Mesa de dialogo (roundtable) established with representatives from San Miguel and Sipacapa municipalities, governmental agencies, and Goldcorp

2010 – initiation of collaborative process to implement the Extractive Industries Transparency Initiative in Guatemala and initiation of consultation process to develop a regulatory basis for implementation of ILO 169 in Guatemala, supported by Goldcorp

2011 – shareholder proposal for suspension of Marlin Mine is unsuccessful (6% of shareholders vote in favour).

References

Auditor General of Canada. 2009. *Environmental review at export development.* Canada, Ottawa: Government of Canada.

Baron, D. 1995. "The nonmarket strategy system." *Sloan Management Review Fall* 37(1): 73–85.

Bartlett, C. and S. Ghoshal. 1989. *Managing across borders*. Boston, MA: Harvard Business School Press.

Bebbington, A., J. Bury, D. Humphreys-Bebbington, J. Lingan, J. P. Munos and M. Scurrah. 2008. "Mining and social movements: struggles over livelihood and rural territorial development in the Andes." *World Development* 36(12): 2888–2905.

BCE Inc. v. 1976. Debentureholders (2008) 3 S.C.R. 560, 2008 SCC 69.

Bird, F. 2004. "Preparing to mine: RTZ in Madagascar." In: F. Bird, E. Raufflet and J. Smucker, (eds.), *International business and the dilemmas of development.* Houndmills, UK: Palgrave Macmillan, Chapter 6.

Börzel, T. A., J. Hönke and C. Thauer (forthcoming). "Does it really take the State? Limited Statehood, Multinational Corporations and Corporate Responsibility in South Africa, Business and Politics."

Braithwaite, J. and P. Drahos. 2000. *Global business regulation.* Cambridge: Cambridge University Press.

Brereton, D. 2002. *The role of self-regulation in improving corporate social performance: the case of the mining industry*. Paper given at current issues in regulation: enforcement and compliance Conference. Melbourne, VIC: Australian Institute of Criminology, September 2–3, 2002.

BSI. n.d. *BS OHSAS 18001 Occupational health and safety*. Accessible at: http://www.bsigroup.com/en/Assessment-and-certification-services/management-systems/Standards-and-Schemes/BSOHSAS-18001/. Accessed July 1, 2011.

Business and Human Rights. n.d. *Voluntary principles on security and human rights*. Accessible at: http://www.business-humanrights.org/ConflictPeacePortal/Specialinitiatives/VoluntaryPrinciples. Accessed April 28, 2011.

Business Wire. 2003. *Manhattan minerals Corp.: centromin peru ruling on tambogrande option agreement*. December 10, 2003. Accessible at: http://www.allbusiness.com/legal/labor-employment-law-alternative-dispute-resolution/5789354-1.html. Accessed September 14, 2010.

Campbell, B. 2011. "Corporate social responsibility and development in Africa: redefining the roles and responsibilities of public and private actors in the mining sector." *Resources Policy* 37: 138–143.

Campbell, J. 2006. "Institutional analysis and the paradox of corporate social responsibility." *American Behavioral Scientist* 49: 925–935.

Canadian Centre for the Study of Resource Conflict. 2009. *Corporate social responsibility: movements and footprints of canadian mining and exploration firms in the developing world*. Accessible at: http://www.miningwatch.ca. Accessed July 1, 2011.

Canadian Network on Corporate Accountability. 2010. *Submission to the extractive sector CSR counsellor's public consultation process*. Accessible at: http://cnca-rcrce.ca/submission-to-the-extractive-sector-csr-counsellor%E2%80%99s-public-consultation-process/. Accessed July 1, 2011.

CAO. n.d. *About the CAO: who we are*. Accessible at: http://www.cao-ombudsman.org/about/whoweare/index.html. Accessed April 28, 2011.

Carroll, A. 1999. "Corporate social responsibility: evolution of a definitional construct." *Business Society* 38: 268–295.

Collins, D. 2011. *UK firm agrees to pay compensation to Peruvian farmers*. BBC, Accessible at: http://www.bbc.co.uk/news/world-latin-america-14227670. Accessed July 23, 2011.

Compliance Adviser/Ombudsman. CAO. 2005. *Assessment of a complaint submitted to CAO in relation to the Marlin mining project in Guatemala*. Accessible at: http://www.cao-ombudsman.org/html-english/complaint_marlin.htm. Accessed July 1, 2011.

Coumans, C. 2008. *Re: Fundamental concerns with the Goldcorp human rights impact assessment and erosion of trust in Canada's responsible investment community's shareholder proposal process*. December 4, 2008. Accessible at: http://www.miningwatch.ca/en/letter-shareholder-group-re-human-rights-impact-assessment-Goldcorps-guatemala-mine. Accessed April 28, 2011.

Cragg, W. and A. Greenbaum. 2002. "Reasoning about responsibilities: mining company managers on what stakeholders are owed." *Journal of Business Ethics* 39(3): 319–335.

Cyanide Code. n.d. *International cyanide management code for the manufacture, transport and use of cyanide in the production of gold*. Accessible at: http://www.cyanidecode.org/. Accessed April 28, 2011.

Dagenais, P. 2010. "Canadian mining industry wins with Bill C-300's defeat." *Canadian Mining Journal*. Available at: http://www.canadianminingjournal.com/news/canadian-mining-industry-wins-with-bill-c-300-s-defeat/1000395591/?type=Print%20Archives.

Dahlsrud, A. 2008. "How corporate social responsibility is defined: an analysis of 37 definitions." *Corporate Social Responsibility and Environmental Management* 15: 1–13.

Dashwood, H. 2007. "Towards sustainable mining: the corporate role in the construction of global standards." *Multinational Business Review* 15(1): 47–65.

Dashwood, H. 2011. "Sustainable development norms and CRS in the global mining sector." In: J. Sagebien and N. Lindsay (eds.), *Corporate social responsibility and governance ecosystems: emerging patterns in the stakeholder relationships of canadian mining companies operating in Latin America*. New York, NY: Palgrave-Macmillan.

Deisley, D. 2011. *CSR challenges of project development in developing countries: the Goldcorp perspective.* Powerpoint and accompanying remarks of David L. Deisley, Executive Vice President, Corporate Affairs and General Counsel, Goldcorp Inc. at the Prospectors and Developers Association of Canada Conference. March 7, 2011.

Dhir, A. 2009. "Shadows and light: addressing information asymmetries through enhanced social disclosure in Canadian securities law." *Canadian Business Law Journal* 47: 435.

Dhir, A. 2010. "Shareholder engagement in the embedded business corporation: investment activism, human rights and TWAIL discourse." In: P. Zumbansen and C. Williams (eds.), *The embedded firm, labour, corporate governance and finance capitalism.* Cambridge, MA: Cambridge University Press.

DiMaggio, P. and W. Powell. 1983. “The iron cage revisited institutional isomorphism and collective rationality in organizational fields.” *American Sociological Review* 48: 147–160.

Doh, J. P., S. D. Howton, S. W. Howton and D. S. Siegel. 2010. “Does the market respond to an endorsement of social responsibility? The role of institutions, information, and legitimacy.” *Journal of Management* 36(6): 1461–1485.

Donaldson, T. and L. Preston. 1995. “The stakeholder theory of the corporation – concepts, evidence, and implications.” *Academy of Management Review* 20(1): 65–91.

Dow, J. N. 2010. *Court orders peru to consult indigenous peoples on mining, oil projects*. (September 1, 2010). Accessible at: http://www.tradingmarkets.com/news/stock-alert/mioie_dj-court-orders-peru-to-consult-indiginous-peoples-on-mining-oil-projects-1145502.html. Accessed April 28, 2011.

EITI. n.d. *Extractive industries transparency initiative*. Accessible at: http://eiti.org/. Accessed April 28, 2011.

Equator Principles. n.d. *Equator principles*. Accessible at: http://www.equator-principles.com/. Accessed April 28, 2011.

Export Development Corporation. n.d. *Social responsibility – environment*. Accessible at: http://www.edc.ca/english/social_environment.htm. Accessed April 28, 2011.

Finnemore, M. 1996. *National interests in international society*. Ithica, NY: Cornell University Press.

Fossgard-Moser, T. and F. Bird. 2004. “Managing security problems through community relations: a comparative study of petroleum companies in colombia.” In: F. Bird, E. Raufflet and J. Smucker (eds.), *International business and the dilemmas of development*. Houndmills, UK: Palgrave Macmillan.

Freeman, E. R. 1984. *Strategic management: a stakeholder approach*. Marshfield, MA: Pitman Publishing.

Fulmer, A. M., A. S. Godoy and P. Neff. 2008. “Indigenous rights, resistance, and the law: lessons from a Guatemalan mine.” *Latin American Politics and Society* 50(4): 91–120.

Gallie, W. 1956. “Essentially contested concepts, proceedings of the aristotelian society 56, 167–198 reprinted.” In: M. Black (ed.), 1962. *The importance of language*. Englewood Cliffs, NJ: Prentice-Hall Inc, pp. 121–146.

Garriga, E. and D. Mele. 2004. “Corporate social responsibility theories: mapping the territory.” *Journal of Business Ethics* 53: 51–71.

Goldcorp. n.d. *Management approach*. Accessible at: http://www.goldcorp.com/corporate_responsibility/reports/2010/6_management.php. Accessed July 1, 2011.

Goldcorp. 2010a. *Goldcorp’s corporate social responsibility policy*. Accessible at: http://www.goldcorp.com/_resources/CSR_Policy_Statement_English-feb9-11.pdf. Accessed April 28, 2011.

Goldcorp. 2010b. *Human rights policy*. Accessible at: http://www.goldcorp.com/_resources/CSR_Human_Rights_Policy_English-feb9-11.pdf. Accessed July 1, 2011.

Goldcorp. 2010c. *Goldcorp named to Dow Jones sustainability index North America*. Accessible at: http://www.goldcorp.com/news/goldcorp/2010/index.php?&content_id=810. Accessed July 1, 2011.

Goldcorp. 2010d. *Goldcorp’s response to the marlin mine human rights assessment report*. Accessible at: http://www.goldcorp.com/_resources/Goldcorps_Response_to_Marlin_Mine_HRA_report_final_06_29_10.pdf. Accessed July 1, 2011.

Government of Canada. 2009. *Building the Canadian advantage: a Corporate Social Responsibility (CSR) strategy for the Canadian international extractive sector*. Accessible at:

http://www.international.gc.ca/trade-agreements-accords-commerciaux/ds/csr-strategy-rse-stategie.aspx. Accessed July 1, 2011.

GRI. n.d. *What is GRI*? Accessible at: http://www.globalreporting.org/AboutGRI/WhatIsGRI/. Accessed April 28, 2011.

Griffin, J. and C. Koerber. 2011. "Corporate responsibility and management: understanding global and local implications." In: T. L. Fort (ed.), *The vision of the firm and its governance*. Springer.

Gunningham, N., Kagan, R.A. and Thornton, D. 2003. *Shades of green: business, regulation and the environment.* Stanford, CA: Stanford University Press.

Haslam, P. 2004. *The corporate social responsibility system in Latin America and the Caribbean*. Canada, ON: Canadian Foundation for the Americas (FOCAL).

Helin, S. and J. Sandstrom. 2010. "Resisting a corporate code of ethics and the reinforcement of management control." *Organization Studies* 31(5): 583–604.

Hillgenberg, H. 1999. "A fresh look at soft law." *10 European Journal of International Law* 10(3): 499–516.

Hoffman, A. 2008. "Goldcorp bested by Mayan mother." *Globe and Mail* (10 July 2008). Available at: https://secure.globeadvisor.com/servlet/ArticleNews/story/gam/20080710/RMINING10.

House of Commons. 2005. *Standing committee on foreign affairs and international trade*. Fourteenth Report, June 20, 2005.

ICMM. n.d. *Sustainable development framework*. Accessible at: http://www.icmm.com/our-work/sustainable-development-framework. Accessed April 28, 2011.

IFC. 2006. *Performance standards on social and environmental sustainability*. Accessible at: http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/pol_Performance-Standards2006_PSIntro/$FILE/PS_Intro.pdf. Accessed April 28, 2011.

ILO. 2011. *Ratifications of ILO 169*. Accessible at: http://www.ilo.org/ilolex/cgi-lex/ratifce.pl?C169. Accessed July 1, 2011.

Imai, S. et al. 2007. "Breaching indigenous law: Canadian Mining in Guatemala." *Indigenous Law Journal* 6(1): 101–139.

Imbun, B. 2006. "Cannot manage without the 'significant other': mining, corporate social responsibility and local communities in Papua New Guinea." *Journal of Business Ethics* 73(2): 177–192.

Inter-American Commission on Human Rights. 2010. *Precautionary measures granted by the commission during 2010 – PM 260-07 communities of the Maya people (Sipakenpense and Mam) of the Sipacapa and San Miguel Ixtahuacan Municipalities in the Department of San Marcos, Guatemala*. Accessible at http://www.cidh.oas.org/medidas/2010.eng.htm. Accessed July 1, 2011.

International Labour Conference. 2010. *98th Session 2010 Report of the committee of experts on the application of conventions and recommendations*. Accessible at: http://www.ilo.org/scmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_103484.pdf. Accessed July 1, 2011.

International Organization for Standardization. 2010. *ISO 26000: Guidance on social responsibility*. Geneva: International Organization for Standardization.

International Organization for Standardization. n.d. *ISO 14000 Essentials*. Accessible at: http://www.iso.org/iso/iso_14000_essentials. Accessed July 1, 2011.

Jantzi Research. 2008. *Jantzi research recommends Goldcorp as ineligible for SRI portfolios.* Accessible at: http://sustainalytics.com/jantzi-research-recommends-goldcorp-ineligible-sri-portfolios. Accessed July 1, 2011.

Jenkins, H. 2004. "Responsibility and the mining industry: conflicts and constructs." *Corporate Social Responsibility and Environmental Management* 34: 23–34.

Jenkins, H. and N. Yakovleva. 2006. "Corporate social responsibility in the mining industry: exploring trends in social and environmental disclosure." *Journal of Cleaner Production* 14: 271–284.

Kapelus, P. 2002. "Mining, corporate social responsibility and the 'community': the case of Rio Tinto, Richards Bay minerals and the Mbonambi." *Journal of Business Ethics* 39(3): 275–296.

Keck, M. and K. Sikkink. 1998. *Activitists beyond borders*. Ithaca, NY: Cornell University Press.

Keenan, K. 2010. "Canadian mining: still unaccountable" NACLA Report on the Americas, May/ June 2010, pp. 29–42. Available at: https://nacla.org/files/A043030031_8.pdf.

Kemp, D., J. R. Owen, N. Gotzmann and C. J. Bond. 2011. "Just relations and company–community conflict in mining." *Journal of Business Ethics* 101: 93–109.

KPMG. 2006. *Global mining reporting survey 2006.* KPMG: London.

Krugel, L. 2011. *Niko Resources pleads guilty to bribe charge*. Toronto Star, June 24, 2011.

Lindsay, N. 2011. "Mining industry associations and CSR discourse: mapping the terrain of sustainable development strategies." In: J. Sagebien and N. Lindsay (eds.), *Corporate social responsibility and governance ecosystems: emerging patterns in the stakeholder relationships of canadian mining companies operating in Latin America.* New York, NY: Palgrave-Macmillan.

Luceah, R. and J. Doh. 2011. *Building international CSR on solid foundations: locational aspects of nonmarket environments*. Paper presented at Workshop on Multilevel CR, University of Washington, Seattle, May, 2011.

Maheandiran, B., J. DiFederico, R. Aguilera Olthuis and S. Imai. 2010. *Goldcorp and HudBay minerals in Guatemala*. Osgoode Hall Law School Research Paper Series (Toronto: Research Paper No. 09/2010).

March, J. and J. Olsen. 1999. "The institutional dynamics of international political orders." In: P. Katzenstein, R.Ol. Keohane and S. Krasner (eds.), *Exploration and contestation in the study of world politics*. Cambridge, MA: MIT Press.

McGee, B. 2009. "The community referendum: participatory democracy and the right to free, prior and informed consent." 27 *Berkeley Journal of International Law* 27(2): 570–635.

Mining Association of Canada. 2009. *Facts and figures 2009: a report on the state of the Canadian Mining Industry*. Accessible at: http://www.mining.ca/www/media_lib/MAC_Documents/Publications/2009/2009_F_and_F_English.pdf. Accessed July 1, 2011.

Mining Association of Canada (MAC). 2010. *Towards sustainable mining – progress report 2010*. Available at: http://extras.newswire.ca/smr/PDF/MAC_TSM_Progress_Report.pdf.

MiningWatch Canada. 2010. *The organization of American states' human rights commission, the region's most respected human rights body, calls on the Guatemalan government and Goldcorp to halt mining (May 24, 2010)*. Accessible at: http://www.miningwatch.ca/en/oas-human-rights-commission-urges-suspension-mining-activity-goldcorps-marlin-mine-guatemala. Accessed April 28, 2011.

MiningWatch Canada. 2011. Sources for Shareholder resolution. Submitted to Goldcorp Inc. (March 21 2011). Available at: http://www.miningwatch.ca/sites/www.miningwatch.ca/files/Sources_accompanying_resolution_and_release_21-03-2011.pdf.

Mining Weekly. 2010. *Guatemala says to suspend Goldcorp's Marlin mine* (June 24, 2010). Accessible at: http://www.miningweekly.com/article/guatemala-says-to-suspend-goldcorps-marlin-2010-06-04. Accessed July 1, 2011.

Muñoz, I., M. Paredes and R. Thorp. 2007. “Group inequalities and the nature and power of collective action: case studies from Peru.” *World Development* 35(11): 1929–1946.

Muradian, R., J. Martinez-Alier and H. Correa. 2003. “International capital versus local population: the environmental conflict of the tambogrande mining project, Peru.” *Society and Natural Resources* 16(9): 775–792.

National Contact Point (Canada). 2011. *Annual report 2011: Canada's national contact point for the OECD guidelines for multinational enterprises*. Accessible at: http://www.international.gc.ca/trade-agreements-accords-commerciaux/ncp-pcn/report2011-rapport2011.aspx?lang=eng#appendix_a. Accessed July 1, 2011.

National Contact Point (Canada). n.d. *Specific instances*. Accessible at: http://www.international.gc.ca/trade-agreements-accords-commerciaux/ncp-pcn/specific-specifique.aspx?lang=eng&menu_id=7. Accessed April 28, 2011.

National Roundtables on Corporate Social Responsibility (CSR) and the Canadian Extractive Industry in Developing Countries. (2007, March). *Advisory group report*. Retrieved October, 20, 2008, from http://geo.international.gc.ca/cip-pic/library/ Advisory Group Report – March 2007.pdf.

North, L. 2011. “Bad neighbors: Canadian mining companies in Latin America.” *Canadian Dimension* 45(1): 19–23.

Odell, C. 2011. “Anti-corruption: a realistic strategy in Latin American mining?” In: J. Sagebien and N. Lindsay (eds.), *Corporate social responsibility and governance ecosystems: emerging patterns in the stakeholder relationships of canadian mining companies operating in Latin America*. New York, NY: Palgrave-Macmillan.

Odell, C. and A. Silva. 2006. *Mining exploration, corporate social responsibility and human rights: untangling the facts, seeking solutions, presentation prepared for the prospectors and developers association of Canada*. Accessible at: www.pdac.ca/pdac/advocacy/csr/odell-silva-mining-exploration.pdf. Accessed July 1, 2011.

OECD. n.d. *Guidelines for multinational enterprises*. Accessible at: www.oecd.org/daf/investment/guidelines. Accessed April 28, 2011.

Okoye, A. 2009. “Theorising corporate social responsibility as an essentially contested concept: is a definition necessary?” *Journal of Business Ethics* 89: 613–627.

Olsen, J. 2002. “Global ethics and the Alien Tort Claims Act: a summary of three cases within the oil and gas industry.” *Management Decision* 40(7): 720–724.

On Common Ground. 2010. *Goldcorp Marlin Mine HRIA final report*. Available on goldcorp steering committee for the human rights assessment of the Marlin Mine website. Accessible at: http://www.hria-guatemala.com/en/MarlinHumanRights.htm. Accessed April 28, 2011.

Pegg, S. 2006. “Mining and poverty reduction: transforming rhetoric into reality.” *Journal of Cleaner Production* 14(3–4): 376–387.

Poppelwell, B. 2010. *Critics plan to ask for RCMP investigation of Calgary company's operations in Mexico*. Toronto Star, March 10, 2010.

Prakash, A. 2000. *Greening the firm: the politics of corporate environmentalism.* Cambridge, MA: Cambridge University Press.

Prakash, A. 2002. “Beyond seattle: globalization, the non-market environment, and business strategy.” *Review of International Political Economy* 9(3): 513–537.

Prakash, A. and M. Potoski. 2012. “Voluntary environmental programs: a comparative perspective.” *Journal of Policy Analysis and Management* 31(1): 123–138.

Probe International. n.d. *Projects supported by export development Canada (EDC)*. Accessible at: http://www.probeinternational.org/files/EDC%20projects%20since%202001.pdf. Accessed July 1, 2011.

Prospectors and Developers Association of Canada. n.d. *E3 plus framework for responsible exploration*. Accessible at: http://www.pdac.ca/e3plus/. Accessed July 1, 2011.

Puplampu, B. 2004. "Capacity building, asset development, and corporate values: a study of three international firms in Ghana." In: F. Bird and S. Herman (eds.), *International businesses and the challenges of poverty in the developing world*. Houndmills, UK: Palgrave Macmillan, Chapter 4, pp. 75–97.

Rights Action. 2008. Investing in conflict: public money, private gain – Goldcorp in the Americas. Accessible at http://www.rightsaction.org/Reports/research.pdf. Accessed April 1, 2011.

Rights Action. 2011. *Goldcorp impunity watch*. May 15, 2011. Accessible at: http://www.rightsaction.org/articles/Goldcorp_blind_investors_051511.html. Accessed July 1, 2011.

Risse, T. and K. Sikkink. 1999. "The socialization of international human rights norms into domestic practices: introduction." In: T. Risse, S. R. Ropp and K. Sikkink (eds.), *The power of human rights: international norms and domestic change.* Cambridge, UK: Cambridge University Press, pp. 1–38.

Rosenzweig, P. and J. Singh. 1991. "Organizational environments and the multinational enterprise." *Academy of Management Review* 16(2): 340–361.

Ruggie, J. 2008. *Protect, respect, remedy: a framework for business and human rights*. Human rights council of the United Nations, A/HRC/8/5.

Russell, B. I., D. Shapiro and A. R. Vining. 2010. "The evolution of the Canadian mining industry: the role of regulatory punctuation." *Resources Policy* 35: 90–97.

Sagebien, J., N. Lindsay, P. Campbell, R. Cameron and N. Smith. 2008. "The corporate social responsibility of Canadian mining companies in Latin America: a systems perspective." *Canadian Foreign Policy* 14(3): 103–128.

Scott, W. 1995. *Institutions and organizations*. Thousand Oaks, CA: Sage.

Shamir, R. 2004. "Between self-regulation and the alien tort claims act: on the contested concept of corporate social responsibility." *Law and Society Review* 38: 635–664.

Sosa, I. 2011. "Responsible investment case studies: newmont and Goldcorp." In: J. Sagebien and N. Lindsay (eds.), *Corporate social responsibility and governance ecosystems: emerging patterns in the stakeholder relationships of canadian mining companies operating in Latin America*. New York, NY: Palgrave-Macmillan.

Social Funds. 2009. *Canadian SRI assets increased to $609 billion in 2008*. Accessible at: http://www.wbcsd.org/plugins/DocSearch/details.asp?txtDocTitle=tool&txtDocText=tool&DocTypeId=-1&ObjectId=MzQzNDI&URLBack=result.asp%3FtxtDocTitle%3Dtool%26txtDocText%3Dtool%26DocTypeId%3D-1%26SortOrder%3D%26CurPage%3D11. Accessed July 1, 2011.

Suchman, M. 1995. "Managing legitimacy: strategic and institutional approaches." *Academy of Management Review* 20(3): 571–610.

Szablowski, D. 2002. "Mining, displacement and the World Bank: a case analysis of compania minera antamina's operations in Peru." *Journal of Business Ethics* 39(3): 247–273.

Szablowski, D. 2007. *Transnational law and local struggles*. Portland, Ore: Hart Publishing.

UNDP. 2011. *Human development report*. Accessible at: http://hdr.undp.org/en/reports/global/hdr2011/download/. Accessed March 5, 2012.

UNDP. n.d. *Composite indices – HDI and beyond*. Accessible at: http://hdr.undp.org/en/statistics/indices/. Accessed March 5, 2012.

UN Global Compact. n.d. *United nations global compact*. Accessible at: http://www.unglobalcompact.org/. Accessed April 28, 2011.

United Nations Human Rights Council. 2011. *Guiding principles on business and human rights: implementing the United Nations 'Protect, Respect and Remedy' Framework*. Accessible at: http://www.business-humanrights.org/SpecialRepPortal/Home/Protect-Respect-Remedy-Framework/GuidingPrinciples. Accessed July 1, 2011.

Valeriote, J. 2009. "Chile's supreme court upholds indigenous water use rights." *Santiago Times* November 30, 2009. Accessible at: http://www.santiagotimes.cl/index.php?option=com_content&view=article&id=17739:chiles-supreme-court-upholds-indigenous-water-use-rights&catid=19:other&Itemid=142. Accessed April 28, 2011.

van Duzer, A. 2003. *The law of partnerships and corporations*. Toronto: Irwin Law.

Vasquez, P. 2010. *Energy and conflicts: a growing concern in Latin America*. Inter-American development bank energy working paper. Accessible at: http://www.iadb.org/intal/intalcdi/PE/2010/07484.pdf. Accessed July 1, 2011.

Vogel, D. 2005. *The market for virtue: the potential and limits of corporate social responsibility*. Washington, DC: Brookings.

Webb, K. 2011. "Corporate social responsibility and the law: learning from the experience of Canadian mining companies in Latin America." In: J. Sagebien and N. Lindsay (eds.), *Corporate social responsibility and governance ecosystems: emerging patterns in the stakeholder relationships of Canadian mining companies operating in Latin America*. New York, NY: Palgrave-Macmillan.

World Bank, Worldwide Governance Indicators Project. 2010. Accessible at: http://info.worldbank.org/governance/wgi/mc_chart.asp. Accessed March 5, 2012.

Zamprile, A. and A. Llorente. 2009. *The social license to operate in the Latin American mining sector: the cases of Bajo De La Alumbrera and Michiquillay* (June 15, 2009). 22nd Annual IACM Conference Paper. Available at SSRN: http://ssrn.com/abstract=1488624.

DE GRUYTER DOI 10.1515/bap-2012-0024 — Business and Politics 2012; 14(3): 1–24

Corporate Responsibility, Multinational Corporations, and Nation States

Douglas A. Schuler*

A club theory approach to voluntary social programs: Multinational companies and the extractive industries transparency initiative

Abstract: This study uses club theory to describe the incentives of extractive industry MNCs to support the Extractive Industries Transparency Initiative (EITI), a multi-stakeholder promoted voluntary social program (VSP) aimed at creating national legislation to make the royalty payments received by governments from mining and oil and gas companies more transparent to the public. We characterize the EITI as a VSP that lacks stringent standards and that has a moderate to high level of enforcement through the national governments that have adopted its principles. According to club theory, VSPs with these characteristics produce only a low to medium level of club benefits, in this case "social branding," for member firms. Noting that over 60 MNCs have signed on to the EITI as of April 2012, we argue that VSPs offering low to medium club benefits should be most attractive to MNCs from countries with long arm disclosure laws, to MNCs lacking relationships with NGOs seeking inexpensive CSR, to MNCs relying upon financing from institutional and social investors, to MNCs attempting to differentiate themselves from competitors on social criteria, and to MNCs with broad stakeholder-focused top managers. We also describe the implications for MNCs if the EITI were to include a more stringent set of social requirements.

***Corresponding author: Douglas A. Schuler,** Associate Professor of Business and Public Policy, Jesse H. Jones Graduate School of Business, Rice University, 6100 Main Street, MS 531, Houston, TX 77005, Tel.: +713 348-5472, E-mail: schuler@rice.edu

1 Introduction

We investigate the voluntary participation by multinational companies (MNCs) to promote the Extractive Industries Transparency Initiative (EITI; see www.eiti.

org), a governance scheme aimed at creating national-level legislation mandating socially-oriented business activities when no such legal requirement exists. Specifically, the EITI focuses upon "extractive industries" companies in the mining, oil, and natural gas sectors and the monetary payments they make to sovereign governments for their extractive activities. The EITI targets national governments to create public policies that require companies to report publicly the royalties they pay to the government for their extraction activities. Additionally, under the EITI, the governments must publish what it receives from such companies – called "revenue transparency" – with discrepancies handled by an independent auditor. The process is overseen by a multi-stakeholder group with representatives from the government, companies, and civil society (http://eiti.org/validation). The goal of such a public disclosure scheme is to increase the transparency of information for the country's citizens and civil society groups, so that public officials and companies can be held accountable for their actions. Since its founding in 2003, 14 countries have adopted the EITI (see Table 1), creating national-level EITIs (e.g., Liberia EITI) and issuing 29 reports, and an additional 21 countries are candidates to join.

Our interest lies in *the incentives for MNCs to support such a governance scheme*. As of April 2012, 61 mining and oil and gas companies have signed on to the EITI as supporters, meaning among other things that they have made a financial and organizational commitment to publicly support the EITI (more below; see http://eiti.org/supporters/companies). The EITI is an example of a voluntary social program (VSP. See Vogel 2008; Potoski and Prakash 2007, 2009) with low standards in terms of stringency (companies merely report the amount they pay in royalties to the government) but moderate to high enforcement (enforcement is done by national governments, which use legal means to achieve enforcement). Potoski and Prakash (2009: p. 29) argue that VSPs with non-stringent standards and moderate to strict enforcement are expected to yield low to moderate "branding" (i.e., a reputation for "social responsibility") benefits to a firm, as well as low to moderate levels of social benefits (i.e., more information available for the public). Using the club theory approach (Potoski and Prakash 2009), we set out to understand better the factors that may have led these MNCs to support this governance scheme. We develop six sets of propositions about how home governments, MNC-NGO relationships, customers, institutional and social investors, competitive strategy, and top management philosophy may shape the decision of a company to join the EITI.

Before proceeding, we wish to introduce three reasons *why a MNC might choose to not support such a VSP*. The first, consistent with collective action and club theories, the private benefits (such as the "social brand") do not exceed the

Members[1]	Transparency international rank[2]	Candidates[1]	Transparency international rank[2]
Azerbaijan	143	Afghanistan	180
Central African Republic	154	Albania	95
Ghana	69	Burkina Faso	100
Kyrgyz Republic	164	Cameroon	134
Liberia	91	Chad	168
Mali	118	Cote d'Ivoire	154
Mauritania	143	Dem. Rep. of Congo	168
Mongolia	120	Gabon	100
Niger	134	Guatemala	120
Nigeria	143	Guinea	164
Norway	6	Indonesia	100
Peru	80	Iraq	175
Timor-Leste	143	Kazakhstan	120
Yemen (suspended)	164	Madagascar (suspended)	100
		Mozambique	120
		Rep. of Congo	154
		Sierra Leone	164
		Tanzania	100
		Togo	143
		Trinidad and Tobago	91
		Zambia	91

Table 1 Countries that have adopted the EITI as of April 2012.
Source: [1]EITI website (www.eiti.org). Searched April 2, 2012; [2]www.transparency.org. Corruption Perceptions Index, 2011. Ranking of 182 countries.

private costs of joining. As we see below, the private monetary costs to support the EITI are minimal for most companies: companies pay a modest fee related to their size of operations and agree to publicly support the EITI on their company's web-site and in other venues. However, in some of the EITI countries, the leaders of the government itself may be resistant to make such payments publicly known. For governments, the EITI is a revenue transparency mechanism, not a spending transparency mechanism (Frynas 2010a). Some governments may feel that the implementation of EITI may result in future pressure to reveal spending, something that many government officials resist. Thus, a potential private cost for a MNC to support the EITI is the possibility of alienating government officials opposed to the EITI who have significant authority over the firm's ability to operate within their country. A second reason that a company many not wish to support the EITI is that there may be other ways for a company to achieve social branding benefits. For example, the global coalition "Publish

What You Pay" (PWYP) advocates for many of the same information transparency requirements as the EITI and similarly has minimal entry requirements, yet is without corporate supporters. Alternatively, a company may unilaterally decide to publish its payments on its own website. While a third party scheme with lenient standards and weak enforcement such as the PWYP and a unilateral scheme lacking third party audits (Conroy 2007) are unlikely to produce more than low branding benefits, they might still yield a higher net benefit to a company than from supporting the higher cost EITI. Finally, a company may refrain from publicly supporting the EITI because it feels that it might become a target of ridicule for "social greenwashing." Greenwashing is defined as, "advertising or marketing that misleads the public by stressing the supposed [social responsibility] environmental credentials of a person, company, or product when these are unsubstantiated or irrelevant" (Gillespie 2008). The EITI been criticized recently for being ineffective (Sandbu 2010; Calland 2011) and a "policy fad" (Mouan 2010). There is no scientific evidence to suggest that revenue transparency by itself – the sole requirement of the EITI – leads to better social or economic outcomes for countries (Frynas 2010b). The EITI does not require companies to take a stand against corruption (Frynas 2010b). Under this circumstance, a MNC might wish to sit on the sidelines and wait and see how the EITI develops before making a formal public commitment towards its support.

As part of our research, we interviewed experts from several stakeholder groups connected to the EITI. The unstructured interviews were conducted in July of 2011 and were face-to-face or by telephone and ranged from 40 to 90 min. We did not employ a random design (Yin 2004) but instead consulted experts to whom we had access. To the extent possible, we attempted to engage a range of relevant stakeholders: (1) an oil and gas company which is a Supporter of the EITI; (2) an oil and gas company which is not a Supporter of the EITI; (3) a mining company which is a Supporter of the EITI; (4) an academic who has written and consulted about the EITI; and (5) an officer of the EITI (by multiple e-mail exchanges).

The paper proceeds as follows. The next section, Section 2, describes the EITI, including the costs to a company to join. Section 3 briefly explains club theory which illuminates the incentives for companies to join a VSP. Section 4 offers six sets of propositions about factors that might motivate a company to support the EITI. In Section 5, we ask what it would mean for MNCs if the EITI's standards were to become more stringent (i.e., the scope of the mandated social behaviors expanded). Finally, we offer some suggestions for future research and conclusions.

2 The EITI in brief

Over half of the world's population resides within countries with significant mineral resources that have created huge amounts of wealth, yet the overwhelming majority of the inhabitants of these countries remains poor and living in substandard conditions.[1] Part of the proceeds from the mining activities to extract minerals, oil, and natural gas that have been paid by companies (both public companies, i.e., national oil companies, and private-sector companies, i.e., ExxonMobil) to the government oftentimes have not flowed into the national treasury for the benefit of the people. There are many reasons for these failings: inadequate financial controls, incompetent administrators, kleptocratic leaders, culture of corruption, devious companies, and disenfranchised citizens and civil society groups (Karl 1997; McMillan 2005; Bracking 2007). This has been termed the resource curse (Karl 2005; Hilson and Maconachie 2009).

The EITI is one of several efforts[2] aimed at combating the resource curse by making the revenue streams from mining and oil and gas extraction more transparent to the public. One of the EITI's core principles is that public knowledge of such payments can empower citizens and civil society groups and lead to better political discussions which in turn may improve the governance and economic and social conditions of the country (EITI Principles 4 and 5, http://eiti.org/files/EITI_Rules_Validations_April2011.pdf. See also Kolstad and Wiig 2009).

The EITI is an example of a voluntary social code that works in the shadow of the law (Kollman and Prakash 2002). In this case, the EITI encourages countries to develop national law for disclosure. Created in 2003 and ratified in 2007, the EITI is aimed at national governments[3] and focuses upon better disclosure of payments made by companies to such governments for the extraction of mineral, oil, and

1 Not all of the countries that are EITI compliant are developing. Norway is one of the EITI's early adopters, the wealthiest country in the world, with a per capital GDP of US $84,290 (World Bank 2012), and the top rating on the UN's Human Development Index (Score of .943, see hdr.undp.org, 2011).

2 Other notable international efforts aimed at the resource curse are Publish What You Pay, Revenue Watch, Global Witness, Transparency International, Southern Africa Resource Watch, and The Global Reporting Initiative.

3 The EITI candidate status process is managed by the EITI Committee. The first step in the process is the sign-up candidacy phase where countries have to comply with the five EITI criteria in order to become a candidate. Upon reaching candidacy status, there is the validation stage where countries have two and a half years to achieve specific milestones in order to be in EITI compliance. If the country proves to have achieved these milestones, it is moved to compliant status, at this point having to go through the validation framework every five years or upon the request of the EITI Board. If not, its candidate status is revoked. (see http://eiti.org/files/2012-03-01_Fact_Sheet.pdf. Accessed March 25, 2012).

gas resources (see Haufler 2010; Aaronson 2011). The EITI has eleven principles that bind the behaviors of companies in the mining and oil and gas industries with regards to the types of payments made to governments for extraction activities. For a country that adopts the EITI, *all companies in the extractive sector*, whether or not they are formal supporters of the EITI, are required to submit to an independent auditor the payments that they made to that government during the period (http://eiti.org/eiti/principles. Criteria 1). Thus, pro-social behavior by companies (public disclosure of payments made to governments) is mandated within the countries that adopt the EITI. Likewise, for adopting countries, the government is required to submit to the auditor their receipts from these companies. Any discrepancies are noted, reconciled, and a report is released to the public.

Countries become part of the EITI through a process managed by the EITI Committee. The first step in the process is the candidacy phase where countries have to comply with the five criteria listed above. Upon reaching candidacy status, there is the validation stage where countries have two and a half years to achieve specific milestones in order to be in EITI compliance. If the country achieves these goals, it is considered to be EITI compliant. At this point, the country will go through the validation framework every five years or upon the request of the EITI Board. If not, the country's candidate status is revoked (see http://eiti.org/eiti/implementation).

Enforcement of the EITI is done by countries. In principle, each country as a sovereign state should be able to enforce the disclosure activities through its national laws and institutions, making the EITI a "strong sword" enforcement regime (Potoski and Prakash 2009: p. 29). However, in practice, the enforcement of EITI standards varies across countries and has been criticized for being weak (Hilson and Maconachie 2009; The Economist 2012). For example, in Liberia, the multi-stakeholder advisory committee assessed a small fine on companies that did not report their information to the auditor in a timely fashion. In Nigeria, many companies withheld reports for some time, although eventually all companies gave their reports to the independent auditor. These examples show that in some countries the EITI's enforcement is not strict; at best, it might be "medium sword" (Potoski and Prakash 2009).

The EITI is supported by a wide range of stakeholders. In addition to the 14 countries that have adopted the EITI principles as formal law, such as in Azerbaijan, and the 21 candidate countries, the EITI is supported by eighteen other countries (as of April, 2012), including most of the OECD countries. The EITI also counts as its supporters international development and financing organizations (e.g., the UN, IDB, and IMF), nine civil society organizations (e.g., Oxfam, Transparency International), nearly 100 institutional investors, three industry associations, and over 60 MNCs (including such giants as ExxonMobil, Shell, BHP

Billiton, Rio Tinto, Vale, and DeBeers). We are particularly interested in the decision of these MNCs to become supporters of the EITI. In the next section we introduce club theory as a way to understand the decision process of these MNCs to support this VSP.

3 Company participation in voluntary social programs as clubs

We consider a VSP such as the EITI to be a type of club that an entity such as a company may choose to join as a supporter. Voluntary clubs, whether a civic association, an industry trade association, or a sporting club, generally produce three types of benefits: public goods, club goods, and private goods. The first is a *public good*: the benefit that accrues to club members as well as to non-members. An example of this is a school cross walk that a neighborhood civic association obtains through its lobbying efforts towards a local governmental authority. The benefits of the cross walk are enjoyed by all persons who cross the street. The cross walk is a public good in that it is available for all (non-excludable) and is not used up by any one person (non-rival). A second benefit of a club is the *club good* that accrues only to its members (Prakash and Potoski 2007). Club goods are non-rival, but excludable from individuals who are not members of the club. Membership in Phi Beta Kappa, the national honors society, is an example: the entry of a new graduate into Phi Beta Kappa does not diminish the membership benefits of existing members, yet each of its members enjoys the prestige of admittance that is not extended to non-members. Clubs oftentimes justify their existence when the club good is sufficiently valuable for members over non-members (Fratianni and Pattison 2001). Potoski and Prakash (2009) argue that membership in a club may confer a private branding benefit (such as a reputation for being "socially responsible") to its members. A final benefit of a club is the *private good* that accrues to any one member. For example, in a sporting club, a member may be able to reserve a tennis court that is unavailable to non-members and any one member's use of the court prevents other club members from its concurrent use (during that time the court is a rival good). In sum, a club has the possibility to produce three types of benefits: public goods, club goods, and private goods.

Olson's collective action theory (1965) describes the conditions under which an individual might (or might not) join a collective effort such as a club, which produces both public and (potentially) private benefits. Collective action theory explains why some individuals may choose not to join the club – called "free riding" – even if the club produces a public good, club good, and private good of value to that individual. Olson's insight is that individuals free ride when the marginal benefits from club membership are exceeded by the marginal costs borne by that individual to join the club. Importantly, when the main product of the club is the public good produced, most individuals will have few incentives to bear the private costs of entry (Olson 1965: pp. 5–52)

Let us consider the EITI to be a club that produces a public good (revenue transparency for the public) and a club good (the socially responsible brand for the member firms) as its two products. Potoski and Prakash (2009) explain how the structure of clubs provides expectations as to the quality of public goods and club goods that the club might deliver (Note that these authors do not explicitly consider private goods that the club might offer. Olson calls these private goods "selective incentives" 1965: p. 51.). VSPs have two distinguishing structural features: (1) the stringency of the standards; and (2) the strength of enforcement. The combination of these two lead to different expectations about the quality of the public good created, the costs for a firm to participate in the VSP, and the firm's club benefits from participating (Potoski and Prakash 2009).

The EITI has a weak standard, as it merely requires companies to report what they pay to governments on only a single aspect (more below) of their contracts (Bracking 2009; Frynas 2010b). Enforcement of the standard is done by the national government, which in principle should be a strong enforcer. However, many of the countries where the EITI is being implemented have historically had weak institutions for enforcement (see Table 1). So we classify the enforcement of the EITI as moderate to strong (most likely moderate). We note that EITI can decertify a country that does not properly enforce the five principles can be suspended from being a "compliant" country, as happened to Yemen in 2011. (http://eiti.org/files/Minutes_17th_Meeting_EITI_Board_Amsterdam.pdf).

In describing the EITI, we have a club with weak standards and moderate to high enforcement: a "boy scout" or a "boot camp" (Potoski and Prakash 2009: p. 29). Clubs of this nature are expected to produce a low or modest public good. Additionally, a VSP with this structure should offer low to moderate club benefits for its members. This leads to our next section to understand better the types of firms that would be attracted to a support a VSP that offers such benefits.

4 Why should a MNC support the EITI? Anticipated advantages

As mentioned in Section 2, the EITI solicits companies to become supporters. The EITI lists several costs to be a supporting company: (1) the company must make a public statement that it endorses the EITI and publish such statement on its website; (2) it has to contribute to the implementation of the EITI in the implementing countries; (3) it has to make a small annual contribution (US $50,000 for companies with market capitalization in excess of US $10 billion; US $30,000 for companies with market capitalization between US $5–10 billion; US $10,000 for companies with market capitalization <US $5 billion); and (4) it has to submit a self-assessment form to the EITI (http://eiti.org/files/2010-10-08%20How%20to%20Support%20-%20Extractive.pdf) which is then published on the EITI's website. Our interviews with companies that are members of the EITI revealed additional costs. For example, one of the companies that was involved quite early in the formation of the EITI expressed that it had expended considerable staff time towards meetings and helping to create some of the structure for company and other stakeholder involvement in the EITI. This former government relations executive noted, however, that his company was oftentimes meeting with these same heads of governments, international organizations, and stakeholder groups, so that the marginal costs to his company may have been less than for other companies in the industry. Importantly, being a supporter of the EITI does not require additional reporting or disclosure requirements beyond which is required for all companies operating in the covered sectors in the countries implementing the EITI (http://eiti.org/companyimplementation).

Although one might notice that these costs are not severe, especially for the very large MNCs in the mining and oil and gas sectors, one must probe into the benefits that accrue to companies from their involvement in the EITI. As shown above, club theory states that VSPs with weak standards, such as those of the EITI, offer only low to moderate club social branding benefits to its members (Potoski and Prakash 2009). A question arises whether it is worth the resources, effort, and potential risks for a company to join a club offering such modest club benefits. This section offers six sets of propositions about the net benefits to MNCs for being a supporter of a weak standard VSP. With reference to the EITI, we offer propositions related to the effect of (1) MNC's home country government; (2) NGO relations; (3) home country and other high standards customers; (4) institutional and social investors; (5) competitive positioning; and (6) top management orientation towards CSR.

4.1 Home country of the MNC: long arm disclosure laws

The list of the country of the headquarters (the "host" country) of the large mining and oil and gas MNCs has expanded over the years from mostly those within Europe, North America, and Australia to countries from throughout the world. This expansion has been fostered by many factors, including the growing wealth and technological sophistication of many of the national oil and mining companies and increasing home country demand (i.e., China and India's huge demand for energy and mineral resources), such that many of the national companies now bid on projects located outside of their own country.

The home countries of many of the MNCs have laws covering the activities of companies outside of their sovereign territory. These home country rules, in this study referred to as "the long arm," are attempts by home country governments to dictate the behavior of companies outside of its jurisdiction. Perhaps the best known long arm law is the US Foreign Corrupt Practices Act, which aims to prevent US-based companies from paying bribes to foreign government officials (Cassin 2009). More recently, the United Kingdom's Bribery Act of 2010 has been described as "the toughest anti-corruption legislation in the world" and criminalizes the active or passive bribery of a private person or public official, whether it occurs inside or outside of the UK, if the individual committing the offense is a British citizen or resident, or if the company is incorporated in the UK (Breslin et al. 2010). Failure to prevent bribery is also considered a punishable offense under the law (http://www.fco.gov.uk/en/global-issues/conflict-minerals/legally-binding-process/uk-bribery-act).

In the area of long arm disclosure laws of royalties paid to governments, there has been an important recent development at the home country level. In the US, the Dodd-Frank financial services bill, "Wall Street Reform and Consumer Protection Act of 2010," asks the Securities and Exchange Commission to amend Section 13 of the Securities and Exchange Act of 1934 (q) "Disclosure of Payments by Resource Extraction Issuers" to require companies to include in their annual report information related to any payment made to foreign governments for the purpose of the development of oil, natural gas, or minerals. The SEC is currently in the final phases of writing rules about the form of such disclosure [SEC 2011 II Proposed Rules Under Section 13(q)], such as its inclusion in a company's Form 1-K, Form 20-F, or Form 40-F (http://www.sec.gov/rules/proposed/2010/34-63549.pdf), and with explicit references to the EITI rules. In the proposed rulemaking, the language states that "Issuers that fail to comply with the rules would be subject to violations of Exchange Act Sections 13(a) or 15(d) as applicable [15 U.S.C. 78m(a) and 15 U.S.C. 78o(d)]."(http://www.sec.gov/about/laws/sea34.pdf).

Extractive industry MNCs subject to home country long arm disclosure laws might be more willing to join EITI than companies not subject to such rules for at least two reasons. First, the disclosure rules mandated by the home country government are such that there is no additional burden on the company for becoming a supporter of the EITI scheme. Second, as revealed to us by one of our interviewees, membership in the EITI as a supporter made it easier for senior managers of one of the oil and gas companies to get private meetings with Members of Congress and their staffs as the law was crafted and as the SEC rules were being drawn, especially with those members who were less sympathetic to oil and gas interests than to NGOs supporting transparency. This suggests a linkage between a firm's corporate social responsibility (CSR; evidenced, in this case, as its support of the EITI) and its political activities. In terms of the minimal marginal costs of becoming a supporter of the EITI, as well as the mild, but positive, reputational benefits of membership that may flow to other issues, we expect that MNCs facing home country long arm disclosure laws are likely to benefit from becoming a supporter of the EITI.

Proposition 1: MNCs with headquarters or significant market presence in home countries with long arm disclosure laws and the capacity to enforce them will have greater benefits from joining the EITI as a Supporter than companies not from or without significant market presence in these countries.

4.2 MNC relationships with NGOs and other citizen groups

VSPs such as the EITI offer its members low to modest social branding benefits from membership. Here we describe how EITI membership might appeal to companies based upon their previous interactions with NGOs.

Management researchers have argued that companies that work closely with NGOs in the communities where they operate may realize such benefits as obtaining important resources (Frooman and Murrell 2005; Peloza and Falkenberg 2009), reducing risks (Googins et al. 2007), enhancing goodwill (Brammer and Millington 2005), and gaining legitimacy (Yaziji 2004). Some MNCs enjoy extensive relationships with NGOs through their CSR and other community activities. One of our informants from a large energy company told us about the enormous efforts and investments that her company undertakes to develop programs with NGOS that produce substantial social benefits for the countries and regions in which it operates. A glance at the web-sites of many of the EITI's Supporters reveals extensive programs with community groups, including local-level and international NGOs. For example, Chevron partners with UNICEF in Angola and the Republic of Congo to provide polio vaccinations (http://www.chevron.com/globalissues/corporateresponsibility/2010/possibilitiesinangola/). ExxonMobil works with Africare, Malaria No More, and other NGOs against malaria (http://www.exxonmobil.com/Corporate/Imports/health/community_malaria_partners.aspx). Rio Tinto and International Union for Conservation of Nature entered into a three-year collaboration to focus on enhanced sustainable development and environmental conservation (http://riotinto.com/documents/Media/PR821g_IUCN_and_Rio_Tinto_announce_three-year_relationship.pdf). Additionally, Rio Tinto has partnered with Earthwatch to develop a biodiversity policy for its abandoned mining sites (http://www.article13.com/A13_ContentList.asp?strAction=GetPublication&PNID=1349).

Membership in a weak standard VSP such as EITI may be attractive for MNCs which have *not* established prior relationships with NGOs in the communities where the company does business. Some companies may not desire to work with NGOs. Other companies are not sought out by NGOs, such as small and medium-sized firms which can sometimes fly under the radar of the larger companies in their sector. Furthermore, firm relationships with NGOs are not without risks as NGOs often pursue goals about issues (i.e., transparency, human rights, environment) contrary to company interests (Doh and Guay 2004; Van Tulder et al. 2009).

A MNC that has not established relationships with NGOs may find membership in the EITI desirable.[4] It allows the company the club benefit of stating that it supports the principles of transparency without incurring many of the costs of establishing relationships and programs with NGOs. In this way, a company may join the EITI to achieve what we term "social responsibility on the cheap." The firm's exposure to NGOs and other groups through EITI membership may also pave the way for future partnerships with such organizations.

Proposition 2: MNCs without existing and steady interactions with NGOs about transparency will have greater benefits from joining the EITI as a Supporter than companies with previous interactions.

4.3 Home country and other high standards countries' customers

A company's social and community oriented practices are said to enhance its legitimacy and reputation leading to positive effects on financial performance (Waddock and Graves 1997). Schuler and Cording (2006) outline a path of how a firm's CSR activities may result in customers becoming more willing to buy that company's products and services. Murray and Vogel (1997) show how consumers form attitudes towards a firm and its products based upon the firm's CSR activities.

4 Note that a low social commitment company that supports the EITI may also bear certain risks. The company's support may place it under pressure from stakeholder groups to conduct other socially-oriented activities or face the risk that its EITI support will be tarred with the label of "greenwashing."

Several researchers have shown that as consumers become aware of a firm's CSR, they are more likely to have a favorable attitude towards its products and more likely to make purchases (Brown and Dacin 1997; Creyer 1997; Auger et al. 2003).

The challenge with EITI is that its weak standards promise only modest club benefits in the form of social responsibility branding. Auger and his colleagues (2003) and Schuler and Cording (2006) pinpoint that most consumers remain ignorant about a company's CSR. Most customers of mining and oil and gas MNCs are unaware that a company has joined the EITI. Therefore, with respect to attracting home country customers, as well as customers from countries with high social standards (e.g., Sweden), we propose that the benefits for firms from joining the EITI will be negligible.

Proposition 3: MNCs that have joined the EITI as a Supporter are unlikely to enjoy superior sales to home country and other high social standards countries' consumers than companies that have not joined the EITI.

4.4 Institutional and social investors

Institutional investors, such as those from the MNC's home country and from other high social standards countries, may see benefits in a company joining the EITI. Institutional investors such as large banks and pension funds are seen as sophisticated stakeholders of firms, seeking and processing considerable information as they consider investing in such companies. The EITI claims that firms have lower risk profiles under the EITI's transparency scheme (http://eiti.org/files/2010-10-08%20How%20to%20Support%20-%20Extractive.pdf), which if true, should result in a better financial deal for the company. One of our interviewees confirmed this. He told us he believed the price of credit for his firm to finance some of their large deals was related to the good reputation of his company for their operational and social/community practices. We propose that companies which rely upon financing from institutional investors, particularly those from countries with high social standards such as most of Europe, Canada, USA, Australia, and Japan will realize benefits from joining the EITI.

Proposition 4a: MNCs that rely upon institutional investors (especially those from high social standards countries) for financing will have greater benefits from joining the EITI as a Supporter than companies without such reliance upon financing from institutional investors.

Finally, we propose that the MNCs with shares held by social investors will benefit from their participation in the EITI. Social investors "explicitly consider the social and environmental implications of their investments in corporations, or other asset classes, as a useful tool to help create a society that is just and sustainable, healthy and wealthy, while still achieving market rate returns" (Lydenberg 2007).[5] Although the EITI's requirements are modest, the EITI's governance scheme provides third party validation that the firm supports a socially-oriented action. Researchers have shown that social actions with third party verification are more valued by many stakeholders than non-verified social actions (Schuler and Christmann 2011). Furthermore, the EITI claims to improve risk management and governance, which should be attractive to social investors considering making investments in these companies (Schueth 2003).

Proposition 4b: MNCs that rely upon social investors for financing will have greater benefits from joining the EITI as a Supporter than companies without such reliance upon financing from social investors.

4.5 Competitive context

MNCs may also try to position themselves in the market on social issues to attract various resources. For example, some oil companies (e.g., Shell) are more proactive on environmental issues than other oil companies, which may be helpful in attracting employees and garnering the support of governments and NGOs. Porter and Kramer (2006) argue that a company's CSR activities should be directed to enhance its value-chain activities or to out-compete rival firms.

Joining the EITI may appeal to MNCs that use social and community programs to distinguish themselves from their rivals, particularly if it is included in a package of related CSR activities. While membership in the EITI is at best a mild form of CSR (note that even those companies which mention their support of the EITI in annual reports do so only as part of a much larger narrative about their socially-oriented activities), it still may be desirable for certain companies. The EITI may complement other CSR activities towards social reputation enhancement, appealing to many stakeholders (one of our informants described the positive effects on employees by his firm's CSR activities, including belonging to the EITI).

5 At 2010, professionally managed assets following SRI strategies stood at US $3.07 trillion, a rise of more than 380% from US $639 billion in 1995. Over the same period, the broader universe of assets under professional management increased only 260% from US $7 trillion to US $25.2 trillion. It is estimated that about one out of every eight dollars under professional management in the United States today is involved in some strategy of socially responsible investing." (Social Investment Research Forum 2010: p. 8, Executive Summary, see http://ussif.org/resources/research/documents/2010TrendsES.pdf. Accessed April 4, 2012.)

Proposition 5: MNCs that attempt to differentiate themselves from rival companies on social dimensions are more likely to join the EITI as a Supporter than companies which do not attempt to differentiate themselves on social dimensions.

4.6 Top management orientation towards CSR

The philosophy and behavior of top managers towards CSR activities cannot be underestimated. A litany of studies link senior management's attitudes and behaviors towards CSR as critical to its extensiveness and effectiveness (Barnea and Rubin 2010; Sangle 2010; Godos-Diez et al. 2011). We are confident assuming that managers exhibit a number of human and organizational biases in undertaking decisions such as whether their firm should join the EITI (March 1994).

We saw this philosophical divide about the EITI (and more generally about CSR) quite clearly in our interviews with senior managers at mining and oil and gas companies. Some of the firms expressed a sense of "social belonging" in that they believed that their company was part of a larger community within that country's setting, and that their operations (in the extractive sectors, the operations are almost always very large) needed to take into account the people living and working in the community, the government, NGOs working in the community (Parmar et al. 2010), as well as natural stakeholders such as the local ecosystem (Starik 1995). These companies expressed a certain perception of social dependence upon this wide range of stakeholders. The companies engage in a variety of activities aimed at these stakeholders, generally to enhance the local community's welfare (i.e., supporting a local school with a building and computers) and to redress local impacts. For these types of firms, the EITI's philosophy and reporting requirements fit easily into a CSR portfolio.

We spoke to informants from another MNC with a much narrower focus of its social responsibilities. The company recognized the impact on local communities from its operations. However, it expressed that the sovereign (national and local) government had the responsibility to outline the rules of the company's engagement and that the company should merely follow the laws of that jurisdiction. This company, currently operating in two countries that rank in the bottom half of the 2011 Transparency International Corruption Perceptions Index, noted that neither of these countries have adopted the EITI nor require the public disclosure of such royalty payments. As such, they told us that the company did not feel compelled to join the EITI or to unilaterally make such disclosures. The informants clearly conveyed the notion that their sole responsibility is to engage in activities that maximize the value of the company to its shareholders in a lawful way (Friedman 1970). One of our informants (from another firm) expressed that this is “a very American” position as compared to a more stakeholder inclusive European (he also threw in Canadian) view about the role of firms in society.

Based upon these two narratives of top management philosophy, we propose the following:

> *Proposition 6: MNCs that have management philosophies with a broad stakeholder focus are likely to realize benefits from joining the EITI more than companies with a narrow, financial stakeholder focus.*

In sum, we believe that there are several instances when companies will enjoy sufficient benefits from joining a weak standards VSP such as the EITI that offers only low to moderate levels of club branding benefits. In particular, we propose that the EITI will be most attractive to MNCs based in countries with long arm laws requiring similar public disclosure of payments, to MNCs lacking extensive relationships with NGOs in those communities of their operations, to MNCs relying upon financing from institutional and social investors, to MNCs using social responsibility differentiation, and to MNCs with top management orientation towards serving a broad set of stakeholders. The next section describes the implications for firms of increasing the stringency of the EITI’s social standards.

5 More stringent social standards: implications for MNCs

We contemplate a situation where a VSP such as the EITI intensifies the strictness of its standards. We argued above that the EITI’s royalties paid disclosure is a low bar of social behavior. Additionally, VSPs with minimal requirements do not generally result in a profound social good in terms of social externalities produced unless many companies adopt the pro-social activities (Potoski and Prakash 2009). If the EITI (or another VSP in this area) is to produce more social externalities, such as greater improvements against the resource curse, the stringency of its social standards must be increased. Additional requirements might be placed upon mining, oil, and gas firms regarding reporting (i.e., other parts of their contracts, including such things as signature bonuses paid), labor and human rights practices, community development, and environmental practices. We note that some of these other issues are covered by existing VSPs. For example, the Voluntary Principles on Security and Human Rights (http://www.voluntaryprinciples.org/) is a multi-stakeholder organization that includes corporate members (some of which are also EITI supporters) that aims to balance human rights and fundamental freedoms with the security of workers and assets.

This section explores the implications on MNCs of strengthening the stringency of the EITI by increasing the number of pro-social activities that extractive industry companies would be required to perform. As above, the assumption is that enforcement would remain at moderate to strong levels, enforced by sovereign states. According to club theory, strict standards that are enforced at moderate to high levels produce moderate to high public goods and moderate to high club branding benefits (Potoski and Prakash 2009). We describe here what types of MNCs would benefit the most from a more stringent EITI (see Table 2).

We argued above that those MNCs from countries with long arm disclosure laws benefit from a weak stringency EITI. A more stringent EITI would likely be attractive to these same companies from these home countries as well, as long as the new standard does not surpass the stringency of the home country standard. A MNC generally does not desire to be forced to do something by a host government that is contrary to that what is mandated by its home government's long arm laws.

Companies with weak relationships with NGOs, which saw a low to modest social branding benefit from the minimalist standards of the EITI, are likely to oppose a more stringent EITI. Membership in a weak standards EITI allows these MNCs to make few changes to their business practices (a low cost proposition) while receiving the modest club benefits. However, these companies generally do not wish to increase their investment in socially-oriented activities that produce public goods and would not likely support a more stringent EITI that mandates such social investments.

Because VSPs with weak standards produce only minimal reputational benefits, we argue that they are unimportant in attracting home country consumers. Making the EITI's standards more stringent, however, should increase the firm's branding benefits to moderate to high levels. This may attract consumers, especially those whom are socially conscious (Schuler and Christmann 2011), assuming such information is publicly known (Schuler and Cording 2006).

Institutional and social investors should also favor more stringent standards, as these standards should serve to mitigate risk within these countries by deepening the public good produced (via pro-social firm and government behaviors, as mandated by the standards). The assumption is that countries with more public goods will enjoy lower levels of public unrest and greater amount of social stability.

We argue that companies that attempt to differentiate themselves from competitors via a social responsibility approach support the weak standard EITI. These companies also would likely support a more stringent socially-oriented VSP, especially if it is congruent with their differentiation strategy, depending

Proposition	Characteristic of MNC	Likely to Join the Current EITI (weak standards)	Likely to Join the Revised EITI (stringent standards)	Comments
1	MNC faces long arm laws from home government	Yes	Yes	Depends upon the match of the long arm law to the more stringent EITI requirement
2	MNC has weak relationships with NGOs and community groups	Yes	No	MNC does not want to make the investment to comply with more stringent standards
3	MNC hopes to attract consumers from high standards countries	No	Yes	Higher branding benefits to MNC from stringent social standards
4a	MNC hopes to attract institutional investors (from high standards countries)	Yes	Yes	Stringent standards consistent with risk mitigation and good governance
4b	MNC hopes to attract social investors	Yes	Yes	Stringent standards consistent with risk mitigation and good governance
5	MNC attempts to differentiate using CSR activities	Yes	Yes	Depends upon the benefit/cost of following more stringent EITI requirements versus other CSR activities
6	Top Managers support (oppose) CSR activities	Yes (No)	Yes (No)	Depends upon the benefit/cost of following more stringent EITI requirements versus other CSR activities

Table 2 Would MNCs benefit from a more stringent EITI*?

*Note: The current EITI standard requires companies to disclose on an annual basis what they pay to governments for the mineral, oil, and natural gas resources they sever from the country. More stringent standards might include, but are not limited to, disclosing more of the terms of such contracts, including initiation and finder's fees, partnerships with national and other private companies, as well as standards unrelated to payments such as labor practices.

upon their analysis of the benefits and costs of these newly mandated social activities versus voluntary CSR activities that they might perform in these areas.

Likewise, we presented previously that companies with top managers who support social causes are likely to support the EITI. These managers are likely to support an EITI that expands its coverage to other social areas impacted by mining and oil and gas extraction, unless the costs are excessive as compared to voluntary activities a company might practice towards such goals. For companies with top management teams opposed to CSR, they are unlikely to support an expansion of the EITI's social requirements for companies.

6 Limitations and conclusions

We use club theory to explore the incentives of MNCs to join a weak standards VSP such as the EITI that offers low to moderate club benefits. To conduct this study, we read materials about the EITI and the extractive industries. We also spoke to a number of individuals from companies that are EITI supporters, from companies outside of the EITI, as well as other experts.

However, our approach is limited and more work can be done. First, we spoke to just a handful of the 61 companies that are currently EITI supporters. Other researchers may wish to reach out to a larger set of companies. Second, we only looked at the EITI. The EITI has a unique structure in that it is a voluntary organization that aims to push countries to mandate its tenets via national-level laws. This may make it difficult to generalize from the EITI to other VSPs that do not use a sovereign government to enforce the firm's socially-oriented behaviors. Third, other socially oriented initiatives (we mentioned previously the Voluntary Principles on Security and Human Rights) exist that may be inter-related to the EITI. Publish What You Pay (a coalition of NGOs), Revenue Watch (a NGO), and the Global Reporting Initiative (a broad-based coalition developing an inclusive measure of sustainability) are three other initiatives aimed at disclosure and transparency. We did not make extensive efforts to describe how these initiatives interact with companies in their decisions to support the EITI. Researchers may wish to examine the interrelationships among these various VSPs, especially on how it affects MNCs' behaviors.

In summary, we described the incentives of MNCs in the mining and oil and gas industries to support a multi-stakeholder initiative aiming to create disclosure rules about payments made to national governments. We characterize this initiative, the EITI, as one with weak standards but having a moderate to high level of enforcement through the national governments that have adopted its principles. Noting that over 60 MNCs have signed on to the EITI as of April, 2012, our paper pursues the question of what type of MNCs would find this type of VSP attractive – one that is expected to produce only a low to medium level of a club good of "social responsibility" branding for its members (Potoski and Prakash 2009). Following the logic of club theory, we argue that VSPs of this sort are most attractive to MNCs from countries with long arm disclosure laws; to MNCs lacking relationships with NGOs which seek inexpensive CSR; to MNCs relying upon financing from institutional and social investors; to MNCs attempting to differentiate themselves from competitors on social criteria; and to MNCs with socially-oriented top managers. Finally, we describe the implications to MNCs joining the EITI if it were to include a more stringent set of social requirements. As the success of VSPs depends, in part, upon the participation of companies, designers of VSPs need to consider the implications of the setting the proper stringency and enforcement of requirements to attract MNCs as members.

MNC participation in the EITI raises some important questions about CSR as it touches the critical elements of the supply chain for mining and oil and gas companies. In the extractive sectors, the upstream exploration and production is commonly viewed as the most vital element of success. This forces MNCs to search globally for sites, placing extractive operations into many host countries, including many that have histories of political and social unrest (Yergin 2011) and with considerable political risk (Eden et al. 2005). Critically in these sectors, the MNCs must negotiate with the host government for the terms of the concession and oftentimes must work in partnership with national companies. Coupled with this is that the size of the investments is enormous – MNCs oftentimes place considerable capital at risk as they enter these countries, as played out by Royal Dutch Shell's $20 billion Sakhalin Island oil project that it was forced by the Russian government to sell to Gazprom in 2006 (Kramer 2006).

Support of regimes like the EITI might prove to be a satisfactory "middle ground" of CSR for many MNCs. As mentioned above, the EITI requires only "revenue transparency" for countries that adopt it; it falls short of "spending transparency" that is demanded by many civil society groups. Support of the EITI allows these companies to appease their investors, primarily located in high standards countries, including some of the large development banks (such as World Bank), which are concerned about political stability and sovereign risk in the countries where they support such large-scale projects. The EITI's "revenue transparency" provisions may be acceptable for certain host governments without forcing them into further transparency which might prove to be more politically dangerous (Frynas 2010b). Many MNCs may see benefit of supporting a weak standard VSP that produces a low to modest public benefit (revenue transparency) but falls short of deeper requirements that might prove fatal to their host governments, the current gatekeepers of their ability to extract and operate within those countries. Furthermore, EITI does not impinge upon other CSR activities that the company might unilaterally undertake. Going forward, the expectation might be that while more extractive industry MNCs may sign on to become formal supporters of the EITI, that none of these companies will be trailblazers towards providing for a greater public good by pushing more socially-mandated activities on themselves or their host country partners.

Acknowledgements: We thank the six senior level managers from three mining and oil and gas companies (names kept anonymous as a condition of the conversations) for their candor and insights about their company's relationship with the EITI. We also thank Eddie Rich of the EITI for promptly answering questions and sending materials, Susan Aaronson of George Washington University for her insights, and Joannie Tremblay of the University of Washington for her critique of an earlier version of this paper. We appreciate the helpful comments and encouragement of Jennifer Griffin and Aseem Prakash, Editors and Organizers, and the participants, of the May, 2011 conference "Corporate Responsibility, Multinational Corporations, and Nation States," sponsored by the University of Washington Center for International Business Research. Finally, we thank our two research assistants, Kristen Hogan and Rachel Huisman, for their excellent work.

References

Aaronson, S. A. 2011. "Limited partnership: business, government, civil society, and the public in the extractive industries transparency initiative (EITI)." *Public Administration and Development* 31: 50–63.

Auger, P., P. Burke, T. M. Devinney and J. J. Louviere. 2003. "What will consumers pay for social product features?" *Journal of Business Ethics* 42: 281–304.

Barnea, A. and A. Rubin. 2010. "Corporate social responsibility as a conflict between shareholders." *Journal of Business Ethics* 97: 71–86.

Bracking, S. 2007. *Corruption and development: the anticorruption campaigns*. Basingstoke, UK: Palgrave MacMillan.

Bracking, S. 2009. *Hiding conflict over industry returns: a stakeholder analysis of the extractive industries transparency initiative*. BWPI Working Paper 91. University of Manchester, Brooks World Poverty Institute. www.manchester.ac.uk/bwpi. ISBN 978-1-906518-90-5.

Brammer, S. and A. Millington. 2005. "Corporate reputation and philanthropy: an empirical analysis." *Journal of Business Ethics* 61: 29–44.

Breslin, B., D. Ezickson and J. Kocoras. 2010. "The Bribery Act 2010: raising the bar above the US Foreign Corrupt Practices Act."*Company Lawyer* 31(11): 144–1027.

Brown, T. J. and P. A. Dacin. 1997. "The company and the product: corporate associations and consumer product responses." *Journal of Marketing* 61: 68–84.

Calland, R. 2011. "Battle against corruption not yet lost." *Mail & Guardian*. http://www.Mg.co.za/article/2011-04-29-battle-against-corruption-not-yet-lost. Accessed 7 November 2012.

Cassin, R. L. 2009. *Bribery everywhere: chronicles from the foreign corrupt practices act.* Self-published. http://www.lulu.com/shop/richard-l-cassin/bribery-everywhere-chronicles-from-the-foreign-corrupt-practices-act/paperback/product-4739581.html.

Conroy, M. E. 2007. *Branded! how the certification revolution is transforming global corporations*. Gabriola, BC: New Society Publishers.

Creyer, E. H. 1997. "The influence of firm behavior on purchase intention: do consumers really care about business ethics?" *Journal of Consumer Marketing* 14: 421–432.

Doh, J. P. and T. R. Guay. 2004. "Globalization and corporate social responsibility: how non-governmental organizations influence labor and environmental codes of conduct." *Management International Review* 44: 7–29.

The Economist. 2012. "Extracting oil, burying data." 402(8773): 73. www.economist.com/node/21548214. Accessed 7 November 2012.

Eden, L., S. Lenway and D. A. Schuler. 2005. "From the obsolescing bargain to the political bargaining model." In: R. Grosse (ed.), *International Business-Government relations in the 21st century.* New York, NY: Cambridge University Press, pp. 251–272.

Fratianni, M. and J. Pattison. 2001. "International organisations in a world of regional trade agreements: lessons from club theory." *The World Economy* 24: 333–358.

Friedman, M. 1970. "The social responsibility of business is to increase its profits." *The New York Times Magazine*. 13 September.

Frooman, J. and A. J. Murrell. 2005. "Stakeholder influence strategies: the roles of structural and demographic determinants." *Business & Society* 44: 3–31.

Frynas, J. G. 2010a. "Corporate social responsibility and societal governance: lessons from transparency in the oil and gas sector." *Journal of Business Ethics* 93: 163–179.

Frynas, J. G. 2010b. "Oil industry's increasing focus on CSR." *Petroleum Economist*. 1 February 2010. http://www.petroleum-economist.com/Article/2731323/Oil-industrys-increasing-focus-on-CSR.html. Accessed 7 November 2012.

Gillespie, E. 2008. "Stemming the tide of greenwash."*Consumer Policy Review* 18(3): 79–83.

Godos-Diez, J. L., R. Fernandez-Gago and A. Martinez-Campillo. 2011. "How important are CEOs to CSR practices? An analysis of the mediating effect of the perceived role of ethics and social responsibility." *Journal of Business Ethics* 98: 531–548.

Googins, B., P. H. Mirvis and S. A. Rochlin. 2007. *Beyond good company: next generation of corporate citizenship.* New York: Palgrave MacMillan.

Haufler, V. 2010. "Disclosure as governance: the extractive industries transparency initiative and resource management in the developing world." *Global Environmental Politics* 10(3): 53–73.

Hilson, G. and R. Maconachie. 2009. "Good governance and the extractive industries in sub-saharan Africa." *Mineral Processing & Extractive Metallurgy Review* 30: 52–100.

Karl, T. 1997. *The paradox of plenty: oil booms and petro-states*. Berkeley, CA: University of California Press.

Karl, T. 2005. "Understanding the resource curse." In: S. Tsalik and A. Schriffin (eds.), *Covering oil: a guide to energy and development*. New York, NY: Open Society Institute.

Kollman, K. and A. Prakash. 2002. "EMS-based environmental regimes as club goods." *Policy Sciences* 35: 43–67.

Kolstad, I. and A. Wiig. 2009. "Is transparency the key to reducing corruption in resource-rich countries?" *World Development* 37: 521–532.

Kramer, A. E. 2006. "Shell bows to Kremlin pressure on Sakhalin." *International Herald Tribune*. 11 December. Accessible at http://www.nytimes.com/2006/12/11/business/worldbusiness/11iht-shell.3864505.html. Accessed July 12, 2012.
Lydenberg, S. 2007. "Universal investors and socially responsible investors: a tale of emerging affinities." *Corporate Governance: An International Review* 15(3): 467–477.
March, J. G. 1994. *A primer on decision making: how decisions happen*. New York, NY: The Free Press.
McMillan, J. 2005. *The main institution in the country is corruption: creating transparency in Angola*. CDDRL Working Paper No. 36. Stanford, CA: Stanford Institute on International Studies. Center on Democracy, Development, and the Rule of Law.
Mouan, L. C. 2010. "Exploring the potential benefits of asian participation in the extractive industries transparency initiative: the case of China." *Business Strategy and the Environment* 19: 367–376.
Murray, K. B. and C. M. Vogel. 1997. "Using a hierarchy-of effects approach to gauge the effectiveness of corporate social responsibility to general goodwill toward the firm: financial versus nonfinancial impacts." *Journal of Business Research* 38: 141–159.
Olson, M. 1965. *The logic of collective action*. Cambridge, MA: Harvard University Press.
Parmar, B. L., R. E. Freeman, J. S. Harrison, A. C. Wicks, L. Purnell and S. De Colle. 2010. "Stakeholder theory: the state of the art." *The Academy of Management Annals* 4: 403–445.
Peloza, J. and L. Falkenberg. 2009. "The role of collaboration in achieving corporate social responsibility objectives." *California Management Review* 51: 95–113.
Porter, M. E. and M. R. Kramer. 2006. "Strategy and society: the link between competitive advantage and corporate social responsibility." *Harvard Business Review* December 2006. 84 (12): 77–92.
Potoski, M. and A. Prakash. 2009. "A club theory approach to voluntary programs." In: M. Potoski and A. Prakash (eds.), *Voluntary programs: a club theory perspective*. Cambridge, MA: MIT Press, pp. 17–39.
Prakash, A. and M. Potoski. 2007. "Collective action through voluntary environmental programs: a club theory perspective." *The Policy Studies Journal* 35: 773–792.
Prakash, A. and M. Potoski. 2011. "Voluntary environmental programs: a comparative perspective." *Journal of Policy Analysis and Management* 31(1): 123–138.
Sandbu, M. 2010. "Voluntary transparency scheme faces scrutiny." *Financial Times* 3. http://www.ft.com/cms/s/0/dd252206-78da-11df-a312-00144feabdc0.html#axzz2BYt6AEp1. Accessed 17 June 2011.
Sangle, S. 2010. "Critical success factors for corporate social responsibility: a public sector perspective." *Corporate Social Responsibility and Environmental Management* 17: 205–214.
Schueth, S. 2003. "Socially responsible investing in the United States." *Journal of Business Ethics* 43(3): 189–194.
Schuler, D. A. and P. Christmann. 2011. "The effectiveness of market-based social certification schemes: the case of fair trade coffee." *Business Ethics Quarterly* 21: 133–156.
Schuler, D. A. and M. Cording. 2006. "A corporate social performance-corporate financial performance behavioral model for consumers." *Academy of Management Review* 31: 540–558.

Starik, M. 1995. “Should trees have managerial standing? towards stakeholder status for non-human nature.” *Journal of Business Ethics* 14: 207–217.

Van Tulder, R., J. van Wijk and A. Kolk. 2009. “From chain liability to chain responsibility.” *Journal of Business Ethics* 85: 399–412.

Vogel, D. 2008. “Private global business regulation.” *Annual Review of Political Science* 11: 261–281.

Waddock, S. A. and S. B. Graves. 1997. “The corporate social performance – financial performance link.” *Strategic Management Journal* 18: 303–319.

Yaziji, M. 2004. “Turning gadflies into allies.” *Harvard Business Review* 82(2): 110–115.

Yergin, D. 2011. *The quest: energy, security, and the remaking of the modern world*. New York, NY: Penguin Press.

Yin, R. K. 2004. *Case study research: design and methods*, 2nd ed. Thousand Oaks, CA: Sage.